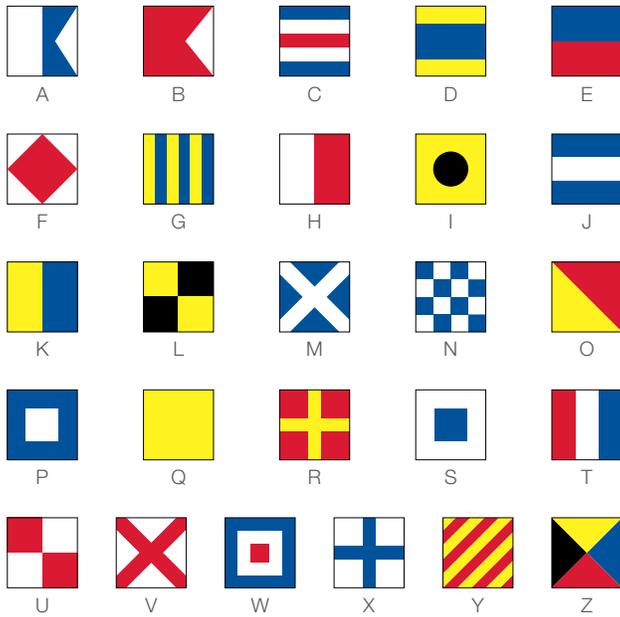




ANNUAL REPORT 2016



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Group Executive Committee

Mission

To strengthen and further develop our position as the leading insurer in the jurisdictions where we do business, through a professional, innovative and caring approach to meeting all of the insurance needs of the communities we serve. Through the excellence of our service, we intend to satisfy the aspirations of our staff, the needs of our policyholders, and the requirements of our shareholders.



R. John Wight, CPA, CA, CPCU
Group President and Chief Executive Officer



Michael White, FIA
Group Chief Financial Officer



Abigail Clifford, B.A., M.Sc.
Group Chief Administrative Officer



Paul Matthews, B.A., PMP
Group Chief Information Officer



Andrew Soares, ALMI, ARe, CPCU
Senior Vice President
Head of Life and Health

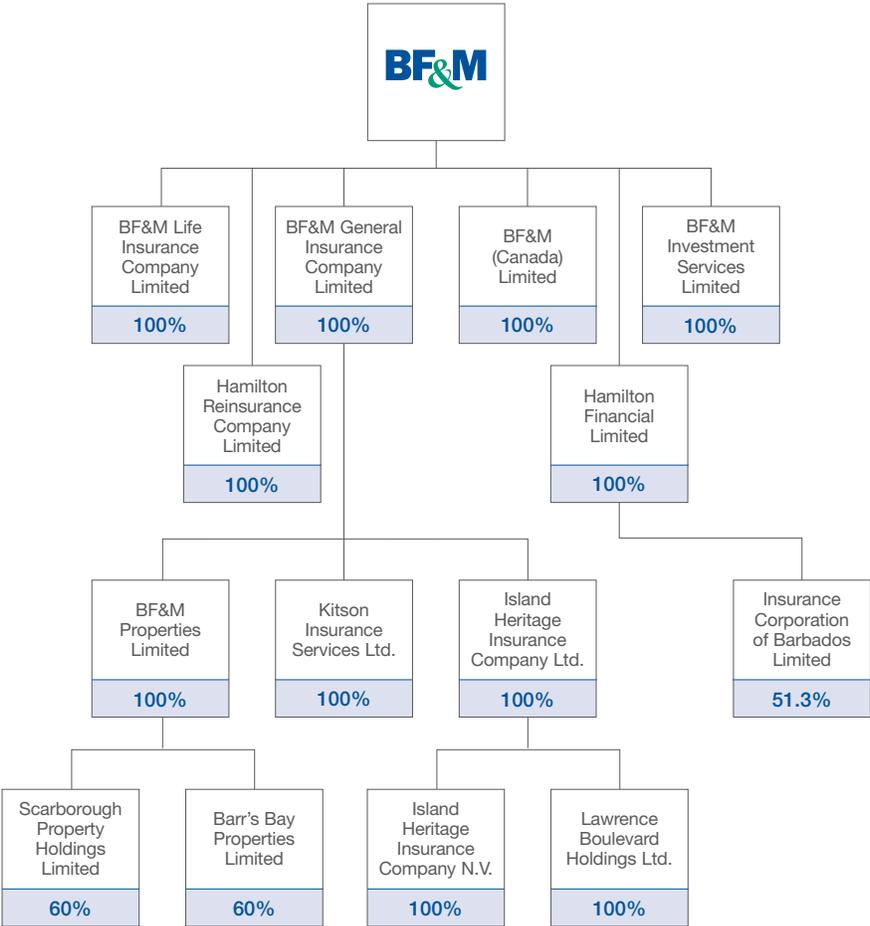
Directors

- ¹ **Gavin R. Arton**
Chairman, Retired Senior Vice President
XL Capital Ltd.
- ² **L. Anthony Joaquin, FCA**
Deputy Chairman
Retired Managing Partner, Ernst & Young
- ² **Nancy L. Gosling, B.Comm., LL.D, C.G.A.**
President and Chief Executive Officer
Gosling Brothers Limited
- ¹ **Gregory D. Haycock, FCA, J.P.**
Retired Senior Partner
KPMG
- ¹ **Stephen W. Kempe**
President
Admiral Management Services Limited
- ² **Catherine S. Lord, B.Sc., J.P.**
Retired
- ¹ **Garry A. Madeiros, OBE, FCA, J.P.**
Retired President and Chief Executive Officer
BELCO Holdings Limited
(now named Ascendant Group Limited)
- ² **Paul C. J. Markey**
Retired Chairman
Aon Bermuda
- ¹ **Richard D. Spurling**
Retired Partner
Appleby, Barristers & Attorneys
- ² **C.L.F. "Lee" Watchorn, FCIA, FSA**
President
Watchorn Advisory Group
- R. John Wight, CPA, CA, CPCU**
Group President and Chief Executive Officer
BF&M Limited

¹ Finance, Compensation &
Corporate Governance Committee

² Audit, Compliance &
Corporate Risk Management Committee

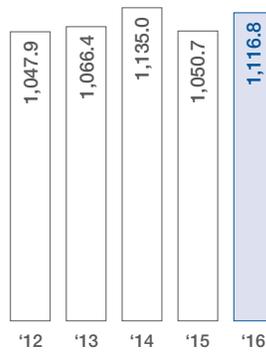
Corporate Structure



Financial and Statistical Summary

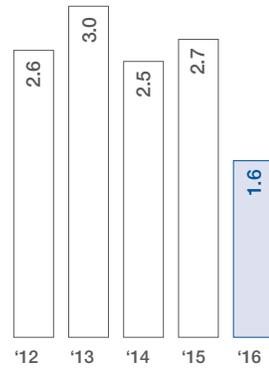
AT END OF YEAR

Total General Fund Assets
in millions of dollars

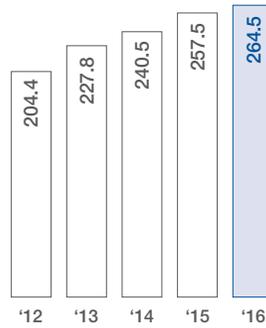


PER COMMON SHARE

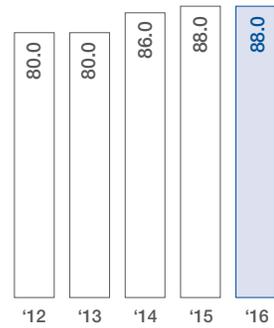
Net Earnings
in dollars



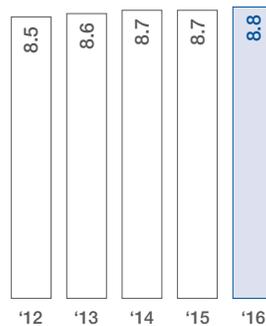
Shareholders' Equity
in millions of dollars



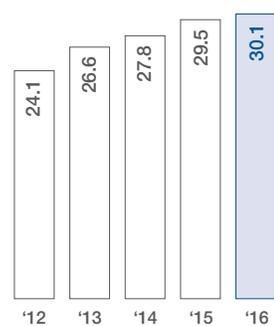
Cash Dividends
in cents



Number of Common Shares
in millions

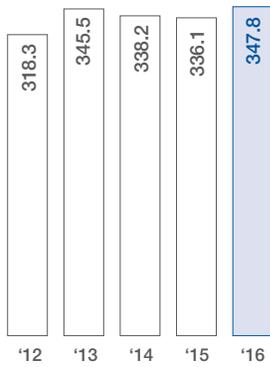


Book Value
in dollars



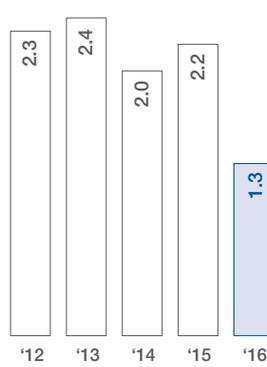
FOR THE YEAR

Gross Premiums Written
in millions of dollars

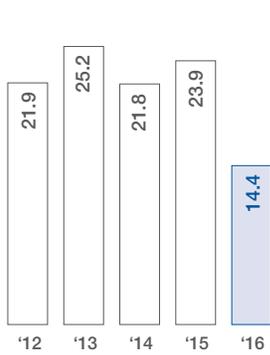


FINANCIAL RATIOS

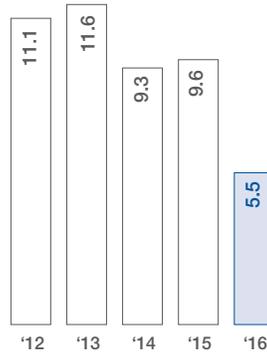
Return on Assets
percentage



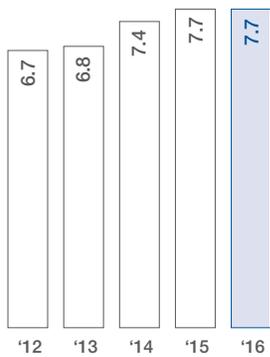
Shareholders' Net Income
in millions of dollars



Return on Common
Shareholders' Equity
percentage



Dividends Declared
in millions of dollars



Shareholders' Report

2016 was a year of many achievements for BF&M Limited (“the BF&M Group”), despite being a year marked by significant insurance loss events. The financial impact of Hurricane Matthew in the Bahamas and Hurricane Nicole in Bermuda was \$10.1 million, resulting in net earnings for shareholders of \$14.4 million, compared with \$23.9 million in 2015. Return on Shareholders' Equity was 5.5%, as compared with 9.6% in 2015; a healthy result considering that 2016 was the most active hurricane season that the BF&M Group has ever seen collectively in the islands where we do business.

In 2016, the BF&M Group continued to execute its strategy of diversification, both geographically and by line of business, operating its insurance and investment businesses in Bermuda and across 15 islands in the Caribbean. The Group has achieved and continues to achieve an annual return on equity that is consistently above our competitors in the region.

The BF&M Group remains very well capitalised and shareholders' equity at 31st December 2016 was \$264.5 million. Based on the strong capitalisation and earnings, the Board of Directors maintained the 22 cents per share per quarter dividend during the year. In May 2016 BF&M announced a share buyback programme. This programme enables BF&M to buy back up to 500,000 of outstanding shares. As at 31st December, 102,115 shares had been purchased at a cost of \$1.86 million. BF&M's share price rose 22% in 2016.

One of the many achievements in 2016 was the successful onboarding in Bermuda of the Kitson Insurance Services Ltd. brokerage agency company, acquired in

September 2015. Retention of business converted to BF&M has been extremely high. Another success was the integration of Bermuda and Cayman-based Property and Casualty (P&C) operations to deliver a more streamlined and efficient business.

The BF&M Group is now one of the largest P&C companies in Bermuda and the Caribbean. The strength that comes with our size enables us to capitalise on our economies of scale, differentiating us in the markets in which we operate. One independent and relevant confirmation of the BF&M Group's financial strength is the annual assessment conducted by rating agency A.M. Best on our four principle operating insurance companies. A.M. Best's rating system is designed to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Ratings are based on an evaluation of a company's balance sheet strength, operating performance and business profile. A.M. Best maintained the Financial Strength Ratings for all four of BF&M's principal operating companies, as follows:

**BF&M General Insurance
Company Limited – “A” Excellent**

**BF&M Life Insurance
Company Limited – “A” Excellent**

**Island Heritage Insurance
Company Ltd – “A” Excellent**

**Insurance Corporation of
Barbados Limited – “A-” Excellent**

There is no insurance group writing domestic insurance in Bermuda and the Caribbean with stronger ratings.



The strength that comes with our size enables us to capitalise on our economies of scale, differentiating us in the markets in which we operate.

R. John Wight, CPA, CA, CPCU
Group President and Chief Executive Officer

Gavin R. Arton
Chairman

As we note each year in our report, the accounting policy under International Financial Reporting Standards for valuing investments, in life enterprises in particular, can and often does lead to significant volatility of financial results. The Company records a significant portion of its investments at fair value, which in 2016 resulted in a decrease in income of \$0.7 million due to increased long term

interest rates which affected the Company's significant fixed income portfolio. This decrease of \$0.7 million compared with a decrease of \$6.5 million in 2015.

In order to mitigate some of this volatility, that from year to year can potentially have a significant influence on earnings, the Company follows a disciplined asset liability matching policy so that, increases

We are in the business of paying claims and we prepare for years such as this one. One of the successes of which I am most proud is that we were there for our customers when they needed us.

(or decreases) in the fair value of the majority of its investments are matched with corresponding increases (or decreases) in insurance reserves, reducing the net effect on earnings in any one year. In 2016, the difference between fair valuing investments and reserves for BF&M's life insurance companies produced a net gain of approximately \$1.5 million. In 2015, the net difference resulted in a net loss of approximately \$0.3 million.

BF&M recorded a strong operating year from its core insurance and investment advisory services, outside of the catastrophe claims from Hurricanes Matthew and Nicole. The Company benefitted from increased business and reduced reinsurance costs. While the core business operations performed well, the Company did set up further impairment provisions of \$2.4 million relating to mortgages where the supporting collateral reduced in value in 2016.

We will report through our four profit centres which are as follows:

- P&C Insurances
- Health & Life Insurances
- Investment Advisory and Retirement Income Products and Services
- Investment in Insurance Corporation of Barbados Limited

P&C Insurances

Net earnings were down considerably in 2016 over 2015 as a result of the two hurricanes previously mentioned. But we are in the business of paying claims and we prepare for years such as this one. One of the successes of which I am most proud is that we were there for our customers when they needed us. Our claims teams in Bermuda and Cayman

provided outstanding service in the wake of these hurricanes and showed great commitment to bringing peace of mind to policyholders who were affected. 2016 brought not only two severe storms, but also one of Bermuda's largest commercial fires in several years, which was insured by BF&M. On the positive side, the aggregate sum insureds in Bermuda and the Caribbean grew year over year. The business continues to grow, and the significant capital accumulated enables the Company to maximise earnings in non windstorm impacted years by retaining greater amounts of hurricane risk, thanks to having a larger capital base than we did several years ago.

We operate in Bermuda and in 15 islands across the Caribbean. We have extensive and efficient distribution networks for our products: direct, managing general agents, brokers, banks, and the Bermuda real-time online servicing through www.bfm.bm. The breadth of channels through which we distribute our products differentiates our business from most other competitors in the markets where we operate.

Health & Life Insurances

Health and life insurances had a strong year for earnings in 2016.

The effects of chronic diseases such as diabetes, hypertension, obesity and renal conditions impact BF&M and our customers on a daily basis. With the recognition that non communicable chronic diseases are largely preventable, BF&M continues to invest in comprehensive programmes which treat the prevalence of these conditions in a holistic manner. We know that chronic medical conditions are big drivers of direct and indirect healthcare costs in Bermuda.

BF&M's benefit plans and member support structures are designed to mitigate and reduce the severity of these chronic conditions, which leads to a healthier, more productive workforce and community.

We continue to see the transfer of costs from Government to insurance providers as subsidies previously paid by Government are rolled back or eliminated entirely. This places the financial burden on local insurers, ultimately impacting the affordability of premiums. Our philosophy continues to centre around deploying strategies to manage the root causes of unsustainable healthcare costs rather than simply treat the symptoms.

BF&M places great importance on its wellness programme to support our group policyholders in employing a healthy workforce. Year over year, the LiveWell programme has observed tremendous increases in member and group policyholder participation, persistence, expanded community partnerships and increased utilisation of our telemedicine programmes.

2017 will see the introduction of a new medical administration system that will facilitate improved customer service through automation, and also better analytics for BF&M in areas such as disease impact trends and fraud detection.

Investment Advisory, Retirement Income Products and Services

BF&M Investment Services Limited ("BFMISL") provides pension investment management and consulting services and is fully licensed with the Bermuda Monetary Authority under the Investment Business Act. The Company provides clients with a wide range of investment options. In 2016,

BFMISL assisted in the streamlining of BF&M's pension product investment options. This process will allow for greater economies of scale and lower investment costs for BF&M clients.

Investment in Insurance Corporation of Barbados Limited

The financial results of BF&M's Barbados based businesses, through our 51.3% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL"), were disappointing and reflective of the Barbados economy, which continues to struggle. During the year, a decision was made to record an impairment of \$3.3 million on goodwill that was recorded by BF&M when it acquired this majority investment. Standard & Poor's reduced the rating for Barbados from "B-" to "CCC+" after year end. ICBL holds a significant amount of Government debt and thus we continue to carefully monitor the economic situation in Barbados.

People and Community

Bermuda

We recognize that BF&M's human capital is a crucial component of our success. This year, we were delighted to acknowledge 37 long service award employees in our Bermuda and Halifax offices, totaling 410 years of dedication to the Company and the customers that we serve.

The drive to attract the very best talent to support the Company's ongoing objectives was strengthened this year, with the addition of Andrew Soares in April 2016, as BF&M's new Senior Vice President, heading the health and life business. Andrew brings significant, diverse international experience and we are pleased to have him join our Executive Committee.



During the year, Glen Gibbons, Senior Vice President, relocated from Bermuda to our Cayman office with additional oversight as General Manager of that operation. Glen's experience and leadership have proven invaluable and he has played a key role in the smooth integration of both P&C operations.

There were several well-deserved promotions to acknowledge in 2016, as follows:

Abigail Clifford
Chief Administrative Officer

Victoria Rankin
VP, Group Reinsurance

Jody Power
VP Finance, Life Operations

We thank them for their hard work and leadership abilities.

We were extremely saddened by the loss of a dear colleague, Renée Bean, who passed away in January 2017. Renée had been with the Company for nine years. Her kindness and calm manner will be missed by colleagues and customers alike.

Our commitment to continued training and professional development is unwavering. We share a special relationship with LOMA (an international trade association for the insurance and financial services industry) and were honoured at their Annual Conference this past year for being one of their founding members, of which we are very proud. We continue to invest in professional development and we congratulate our colleagues in both the

Bermuda and Halifax offices for receiving professional designations in 2016:

Associate, Life Management Institute
Jody Power, Andrew Soares,
Brigitte Goyette

Associate, Reinsurance Administration
Sacha Pedro

Associate, Secure Retirement Institute
Surlena Smith

**Associate, Customer Service –
Life Insurance**
Jai-Michael Phillips, Carolina Tomaz

Not only do we have a strong team in house, but we are delighted to have our culture recognised externally. BF&M is proud to have been listed once again as one of the top 10 employers in Bermuda in The BottomLine Magazine's 2016 Top Ten Employers. We are the only Bermuda company to place each year since the awards began eight years ago. The survey examines which of the island's companies offer the most rewarding work environment and experience, and the participants are a cross section of the diverse structure of Bermuda-based local and international companies.

Whilst we are delighted to celebrate our accomplishments, supporting the needs of the local community is very much the backbone of what drives our corporate social responsibility outreach. Giving back to the community we serve is a fundamental value for all of us at BF&M. We engage in a vast array of community support initiatives—both of other organisations and our own.

Giving back to the community we serve is a fundamental value for all of us at BF&M. We engage in a vast array of community support initiatives—both of other organisations and our own.

The fundamentals of the BF&M Group business are sound. We continue to strengthen an already strong management and staff. We are very well capitalised and are building the economies of scale required to sustain our track record of success.

We are committed to the ongoing support of sports, art, and health programmes. This is reflected by our proud, longstanding support of the Bermuda Cricket Board and its work with the island's young cricketers, as well as by our title sponsorship of the BF&M Breast Cancer Awareness Walk, in support of the invaluable work of the Bermuda Cancer and Health Centre. In 2016, we celebrated our 20th anniversary of the Walk, which saw a record number of participants.

BF&M staff are eagerly awaiting the start of the 35th America's Cup sailing races, which commence on May 26th in Bermuda. As a major sponsor, our affiliation with the America's Cup is an exciting opportunity for all of us to support Bermuda, which we do as the Official Healthcare Provider of the America's Cup and Oracle Team USA.

Cayman

In 2016, our Cayman office, Island Heritage, celebrated its 20th Anniversary with a gala reception attended by over 100 people, including the Cayman Islands Premier, the Company founders, dignitaries, and many long-serving employees.

The office places utmost importance on the development and well-being of its employees. Through their Learning and Development initiative, training is offered and supported through various professional certification programmes. In 2016, we congratulated three employees who achieved professional insurance designations from the Chartered Insurance Institute U.K.:

Diploma in Insurance
Jonathan Welds

Certificate in Insurance
Kayla Jackson, Brianne McCoy

Another ten employees are still working toward their professional insurance designations.

Island Heritage and its staff are committed to the betterment of the Cayman community, giving back through monetary donations and their time. The office launched CharityDrive in 2012 as an innovative and exciting sponsorship programme that raises money and awareness for local charities. In 2016, CharityDrive raised over \$25,000 for the Breast Cancer Foundation and since inception, has raised substantial sums for a number of worthy causes. Outside of CharityDrive, in 2016 staff offered hands-on support to local charities by assisting with their community service projects such as delivering meals to the needy with Meals on Wheels.

Barbados

ICBL undertook the sponsorship of the Barbados Pride cricket franchise with a view to making a positive contribution to the national sport, but more importantly to play a role in positively shaping the lives of young men. Out of this relationship, the Company is hoping to have greater input in the growth and development of Barbados' youth, targeting the thousands of young men and women who take up the sport from an early age.

As a leading provider of health insurance coverage, ICBL continues to take a deliberate approach to the promotion of health awareness, healthcare development, healthy living and proactive health practices.

This was demonstrated again in 2016 with the second-year sponsorship of the annual Broadway to Barbados show, which raises funds to assist with the upgrade and upkeep of the Queen Elizabeth Hospital, particularly

the Medical Intensive Care Unit and the Accident and Emergency Department.

Shortly thereafter, the Company put its energy behind the hosting of the 7th annual ICBL Family-Fun Walk & Run, which saw a record 3,618 individuals taking part in 2016. This significant participation allowed the Company to increase its level of financial donations to several worthy beneficiaries.

In addition, as seen in previous years, staff were keen to donate their time to several causes, with the standout activity in 2016 being their commitment to the Salvation Army feeding programme. Introduced to the company by the Kiwanis Club of Barbados Central, this programme saw several staff members coming out one Sunday a month to distribute food packages to the homeless.

Bahamas

Opened since 2007, our Bahamas office is one of our smaller operations. However, our colleagues are active in their respective communities, getting involved in numerous events and promotions. As we aim to grow our Life business in the Bahamas, we will look to expand our corporate social responsibility programmes.

Canada

As referenced above, a number of Halifax employees were recognized during the course of 2016 for long service awards. As well as offering of their personal time to volunteer for a variety of community causes, the Halifax team ran a very successful toy drive for the Salvation Army to give to children at Christmas time. Staff members also spearheaded an impressive food collection for the Food Bank. We are proud of the talents and the enthusiasm contributed by our staff towards making a difference in our communities.

Looking Forward

The fundamentals of the BF&M Group business are sound. We continue to strengthen an already strong management and staff. We are very well capitalised and are building the economies of scale required to sustain our track record of success.

Thanks

On behalf of the Board of Directors, I would like to thank our employees in all our jurisdictions for their commitment, hard work and dedication.

I would like to extend my personal thanks to our Directors, for the expertise they bring to the Board and for their tireless commitment. I am grateful for their governance and guidance.

And finally, on behalf of the BF&M Group, thank you to our shareholders and customers—your support and loyalty are a critical component of BF&M's success.



Gavin R. Arton
Chairman



R. John Wight, CPA, CA, CPCU
Group President and Chief Executive Officer





Financial Statements

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Consolidated Statement of Income	31	Notes to Consolidated Financial Statements	35

Responsibility for Financial Reporting

For the year ended 31 December 2016

The management of BF&M Limited (“the Group”) is responsible for the preparation of the consolidated financial statements contained in this report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Management has established and maintains a system of financial reporting and internal controls to provide reasonable assurance that transactions are properly authorised and recorded. These controls include the careful selection, training, and supervision of qualified employees, the establishment of well-defined responsibilities, and the communication of policies relating to good conduct and business practice. Internal controls are reviewed and evaluated by the Group’s internal audit function.

The Audit, Compliance, and Corporate Risk Management Committee, composed of directors who are not officers or employees of the Group, reviews the consolidated financial statements on behalf of the Board of Directors before the statements are submitted to the shareholders.

The shareholders’ independent auditors, PricewaterhouseCoopers Ltd., have audited the consolidated financial statements of the Group in accordance with International Standards on Auditing and have expressed their opinion in their report to the Group’s shareholders. The auditors have unrestricted access to and meet periodically with the Audit, Compliance, and Corporate Risk Management Committee to review its findings regarding internal controls over the financial reporting process, auditing matters and reporting issues.

These consolidated financial statements have been authorised for issue by the Board of Directors on 5 April 2017. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.



R. John Wight, CPA, CA, CPCU
Group President and Chief Executive Officer



Michael White, FIA
Group Chief Financial Officer



Independent auditor's report

To the Shareholders of BF&M Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of BF&M Limited (the 'Company') and its subsidiaries (together 'the Group') as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

BF&M Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
 - the consolidated statement of income for the year then ended;
 - the consolidated statement of comprehensive income for the year then ended;
 - the consolidated statement of changes in equity for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to the consolidated financial statements, which include significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

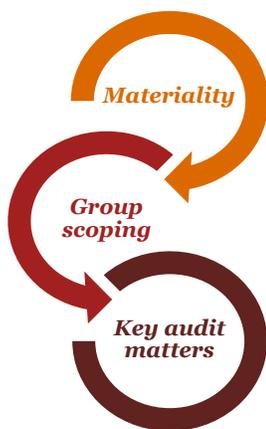
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.



Our audit approach

Overview



- Overall group materiality: \$1.3 million, which represents 5% of average profit before tax for 2016, 2015 and 2014.

We conducted an audit of four full scope components covering over 90% of the Group's consolidated assets and revenues. Each of the four components were audited by local component audit teams located in Bermuda, Barbados and the Cayman Islands. The Group engagement team has regular interaction with the aforementioned component teams, and the engagement leader performed site visits to those jurisdictions during the year ended 31 December 2016.

- Impairment of mortgage loans in the Group's Health, Life, Annuity and Pension segment
- Valuation of investment properties in the Group's Barbados operations
- Impairment of goodwill and intangible assets
- Valuation of incurred but not reported claims for property and casualty lines
- Methodologies and assumptions used for determining insurance contract liabilities for life and health claims

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Reference: Independent auditor's report on the Consolidated Financial Statements of BF&M Limited and its subsidiaries as at 31 December 2016



Overall group materiality	\$1.3 million
How we determined it	5% of average profit before tax for 2016, 2015 and 2014.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards. We have applied an average to the benchmark in order to take into account the volatility in earnings driven by catastrophe loss events.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above fifty-two thousand dollars as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p>Impairment of mortgage loans in the Group's Health, Life, Annuity and Pension segment</p> <p><i>See notes 2, 5A, 7 and 11 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.</i></p> <p>The mortgage impairment provision at 31 December 2016 is \$19.3 million. The impairment relates to exposures in the Group's Health, Life, Annuity and Pension segment as defined in Note 7 to the consolidated financial statements.</p> <p>Determining impairment of mortgage loans involves complex subjective judgment and an in-depth understanding of both general market conditions and mortgage-specific facts and circumstances. In particular, determining the value of the underlying real-estate collateral ("property") involves a high degree of judgment, given the nature of the property</p>	<p>We tested management's evaluation of impairment of the relevant mortgage exposures as follows:</p> <ul style="list-style-type: none"> • Obtained an understanding of management's process for determining non-performing mortgages, • Evaluated the completeness of the population of non-performing mortgages by testing payment patterns on outstanding principal and interest for loans not included within management's assessment, • Checked the mathematical accuracy of management's impairment model, • Assessed the competence and objectivity of management's experts, • Inspected the work and findings of property valuations performed by external valuation experts and compared these to recent and pending sales of underlying property, general market indicators, and prior year valuations,

Reference: Independent auditor's report on the Consolidated Financial Statements of BF&M Limited and its subsidiaries as at 31 December 2016



market in Bermuda and therefore is an area of audit focus.

Management uses qualified external valuation experts as well as pending sales information to assist with the valuation of the property for certain non-performing mortgages.

Other assumptions applied in determining impairment include the costs and time period expected to sell the property.

- Engaged our own property valuation expert to assist with determining an independent estimate of value for a selected property,
- Evaluated the reasonableness of management's other assumptions used in determining the provision for impairment, including, real estate agency fees, legal fees and other costs to sell the property as well as the time period to sell the property, and
- Performed sensitivities around the key assumptions, and considered the likelihood of these outcomes.

No material differences were identified as a result of the procedures we performed.

Valuation of investment properties in the Group's Barbados operations

See notes 2, 8, and 15 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

The carrying value of investment properties is \$36.2 million of which \$16.9 million relates to assets in the Barbados operations as defined in Note 7 to the consolidated financial statements, as at 31 December 2016.

Given the ongoing market volatility and macroeconomic uncertainty within Barbados, property valuation continues to result in an area of higher risk, as significant judgement is required by management in estimating fair value (and thus any impairment) as market observable inputs are not readily available. Management uses qualified external valuation experts to assist with the valuation of the properties.

Key assumptions used within the valuation models include cashflow forecasts, rental growth rates and discount rates.

With the assistance of our valuation expert, we assessed the valuation of the Barbados investment properties as at 31 December 2016 as follows:

- Evaluated the methodology and key assumptions including cash flow forecasts, rental growth rates and discount rates used by management within the valuation models. These assumptions were compared against, economic outlooks, industry forecasts, prior year assessments and other appropriate benchmarks,
- Tested the integrity of the underlying data used in the models and checked for mathematical accuracy,
- Assessed the competence and objectivity of management's experts

No material differences were identified as a result of the procedures we performed.



Impairment of goodwill and intangible assets

See notes 2, and 18 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates

Total goodwill and intangible assets amount to \$51.2 million as at 31 December 2016.

The future cash flow forecasts utilized to develop management's assessment of any need for impairment for these assets involve significant judgment, given both industry and company-specific facts and circumstances.

The key inputs to the cash flow forecasts include expected cash inflows, expected cash outflows and the discount rate applied.

During the year ended 31 December 2016, management recorded a full impairment (\$3.3 million) of goodwill and brand associated with its Insurance Corporation of Barbados Limited ("ICBL") cash generating unit ("CGU").

We tested management's evaluation of impairment of goodwill and intangible assets as follows:

- We evaluated management's future cash flow forecasts for each of the four significant CGU's that support the carrying value of these assets. The CGU's supporting the software development cost intangibles included the legal entities BF&M General Insurance Company Limited and BF&M Life Insurance Company Limited. The CGU's supporting goodwill and brand intangible assets were the Island Heritage Insurance Company Limited and ICBL legal entities.
- With respect to management's assumptions surrounding cash inflows and outflows, we performed the following:
 - Compared management's forecasts against historical performance of the entities, as well as the current market environment,
 - Evaluated the discount rates applied against market based inputs,
 - Performed sensitivities around the key assumptions and considered the likelihood of these outcomes.
- Tested the mathematical accuracy of management's impairment model,
- With respect to the ICBL CGU for which a full impairment of goodwill and brand was recorded, we involved our valuation specialists who performed an alternative assessment based on fair value less cost to dispose. The range of values that resulted from this assessment were consistent with management's conclusion to record a full impairment of goodwill and brand as at 31 December 2016.

No material differences were identified as a result of the procedures we performed.



Valuation of incurred but not reported claims for property and casualty lines

See notes 2, 5B and 24 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

Total incurred but not reported reserves as at 31 December 2016 are \$21.5 million.

The methodologies and assumptions utilized to develop incurred but not reported reserves involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions.

Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to assumptions and complex calculations.

Management uses an actuarial expert to assist in determining the value of claims incurred but not reported.

We tested management's valuation of the relevant incurred but not reported claims for property and casualty lines as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management, and their external actuarial experts to support the actuarial valuation,
- In order to challenge management's assumptions and methodologies, we were assisted by our actuarial experts, who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes we compared our independent claims reserve estimates to those booked by management, and sought to understand any significant differences,
- For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. In performing this work we concluded the Group's actuarial methodologies were consistent with those used in the insurance industry and with prior periods.

The results of our procedures indicated that the estimates recorded by management are reasonable.



Methodologies and assumptions used for determining insurance contract liabilities for life and health claims

See notes 2, 5B and 24 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.

Total reserves for life and health insurance contracts for the year ended 31 December 2016 are \$ 194.3 million.

The valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities. The key assumptions include mortality, morbidity, lapse and expenses.

Management uses an actuarial expert to assist in determining these assumptions and in valuing the actuarial liabilities.

We tested management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims as follows:

- We tested the completeness, accuracy and reliability of the underlying data utilized by management to support the actuarial valuation,
- We tested a sample of contracts to ascertain that contract features were appropriately valued by the actuarial model,
- We have utilized our actuarial experts to evaluate the methodologies and assumptions utilized by management's actuarial expert in the context of industry and entity-specific facts and circumstances,
- We updated our understanding for any changes impacting the key assumptions and for selected classes of business based on reserve volume, evaluated the key assumptions including mortality, morbidity, lapse and expenses, all of which are based on entity experience or published industry studies, and consistent with the required actuarial standards of practice.

The results of our procedures indicated that the methods and assumptions used by management are reasonable.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

BF&M Limited is the parent of a group of entities. The financial information of this Group is included in the consolidated financial statements of BF&M Limited. The Group is structured into six segments (see Note 7 of the consolidated financial statements) and is a consolidation of 15 separate legal entities (see Note 1 of the consolidated financial statements).

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC Bermuda, Cayman Islands and Barbados operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained.

Reference: Independent auditor's report on the Consolidated Financial Statements of BF&M Limited and its subsidiaries as at 31 December 2016



The Group's operations are significantly dominated by four legal entities which also represent four segments, and as such these components required an audit of their complete financial information which provided us over 90% coverage of operations as measured by revenue and total assets. These components are: (i) Health, life, annuity and pension, (ii) Property and casualty, (iii) Barbados operations and (iv) Cayman Islands and other Caribbean operations. Additionally, based on our professional judgment, certain audit procedures were conducted by the Group team over certain balances within the Group's real estate components, as well as analytical procedures over the remaining components. The Group engagement team have had regular interaction with all component teams, and the engagement leader performed site visits to Barbados and Cayman Islands during the year ended 31 December 2016. The Group team engagement leader and a senior member of the Group engagement team reviewed all reports about the audit approach and findings of the component auditors in detail. This together with additional procedures performed at the Group level, as described above, gave us the evidence we needed for our opinion on the Group's financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the Shareholders' Report, which we obtained prior to the date of this auditor's report, and the full Annual Report (but does not include the consolidated financial statements and our auditor's report thereon) which is expected to be made available to us after the date of our audit report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the full Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Reference: Independent auditor's report on the Consolidated Financial Statements of BF&M Limited and its subsidiaries as at 31 December 2016



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Reference: Independent auditor's report on the Consolidated Financial Statements of BF&M Limited and its subsidiaries as at 31 December 2016



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Colm A. Homan.

PricewaterhouseCoopers Ltd.

*Chartered Professional Accountants
Hamilton, Bermuda
11 April 2017*

Consolidated Statement of Financial Position

As at 31 December 2016
(in thousands of Bermuda dollars)

	Notes	2016 \$	2015 \$
Assets			
Cash and cash equivalents	9	108,896	99,297
Fixed deposits	10	15,215	13,198
Regulatory deposits	10	9,033	17,386
Investments	11	648,707	636,783
Insurance receivables and other assets	12	92,926	77,095
Deferred policy acquisition costs	13	9,895	8,952
Reinsurance assets	14	98,620	65,694
Investment properties	15	36,164	36,398
Property and equipment	16	24,580	24,876
Tax recoverable	17	2,442	925
Intangible assets	18	51,179	52,029
Restricted cash	10	19,106	18,034
Total general fund assets		1,116,763	1,050,667
Segregated funds assets	19	685,938	631,059
Total assets		1,802,701	1,681,726
Liabilities			
Other liabilities	20	80,219	69,600
Deferred tax liability	17	829	896
Loan payable	21	477	1,123
Retirement benefit obligations	22	3,432	4,571
Investment contract liabilities	23	343,494	342,686
Insurance contract liabilities	24	379,028	329,458
Total general fund liabilities		807,479	748,334
Segregated funds liabilities	19	685,938	631,059
Total liabilities		1,493,417	1,379,393
Equity			
Share capital	25	8,784	8,722
Treasury shares	25	(1,265)	-
Contributed surplus	25	1,482	1,482
Share premium	25	62,162	61,387
Accumulated other comprehensive loss	30	(7,240)	(7,996)
Retained earnings		200,569	193,892
Total shareholders' equity		264,492	257,487
Non-controlling interests		44,792	44,846
Total equity		309,284	302,333
Total liabilities and equity		1,802,701	1,681,726

Approved by the Board of Directors



Gavin R. Arton
Chairman



R. John Wight, CPA, CA, CPCU
Group President and Chief Executive Officer

Consolidated Statement of Income

For the year ended 31 December 2016

(in thousands of Bermuda dollars except for per share amounts)

	Notes	2016 \$	2015 \$
Income			
Gross premiums written		347,849	336,093
Reinsurance ceded		(135,726)	(137,236)
Net premiums written		212,123	198,857
Net change in unearned premiums	24	612	1,670
Net premiums earned		212,735	200,527
Investment income	11	13,415	3,744
Commission and other income	27	41,017	46,997
Rental income		4,031	4,054
Total income		271,198	255,322
Expenses			
Insurance contracts benefits and expenses			
Life and health policy benefits	28	117,113	97,490
Short term claim and adjustment expenses	28	30,996	22,642
Investment contract benefits		(1,344)	1,113
Paid or credited to policyholder accounts		-	616
Participating policyholders' net loss (income)		581	(483)
Commission and acquisition expense		29,656	30,774
Operating expenses	29	64,314	62,640
Amortisation expense		11,982	10,329
Interest on loans		40	69
Total benefits and expenses		253,338	225,190
Income before income taxes		17,860	30,132
Income taxes	17	(831)	(2,260)
Net income for the year		17,029	27,872
Net income attributable to:			
Shareholders		14,365	23,908
Non-controlling interests in subsidiaries		2,664	3,964
Net income for the year		17,029	27,872
Earnings per share			
- Basic	31	\$1.64	\$2.75
- Fully diluted	31	\$1.64	\$2.75

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

(in thousands of Bermuda dollars)

	2016 \$	2015 \$
Net income for the year after income taxes	17,029	27,872
Other comprehensive income/ (loss):		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	583	(543)
Items that may be subsequently reclassified to profit or loss		
Investments classified as available for sale		
Fair value gain/ (loss)	267	(27)
Currency translation differences	(105)	(213)
	162	(240)
Total other comprehensive income/ (loss) for the year after income taxes	745	(783)
Total other comprehensive income/ (loss) attributable to:		
Shareholders	756	(398)
Non-controlling interests in subsidiaries	(11)	(385)
Total other comprehensive income/ (loss) for the year after income taxes	745	(783)
Comprehensive income	17,774	27,089
Comprehensive income attributable to:		
Shareholders	15,121	23,510
Non-controlling interests in subsidiaries	2,653	3,579
Comprehensive income	17,774	27,089

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive loss is disclosed in Note 17.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

(in thousands of Bermuda dollars)

	Notes	2016 \$	2015 \$
Share capital			
Balance - beginning of year		8,722	8,652
Shares issued under employee share purchase plan	25	5	18
Shares issued under equity incentive plan	25	-	4
Share grants issued under equity incentive plan	25	72	55
Share grants forfeited under equity incentive plan	25	(15)	(7)
Balance - end of year		8,784	8,722
Treasury shares			
Balance - beginning of year		-	-
Acquisition of shares	25	(1,862)	-
Shares issued under employee share purchase plan	25	209	-
Shares issued under equity incentive plan	25	388	-
Balance - end of year		(1,265)	-
Contributed surplus - beginning and end of year		1,482	1,482
Share premium			
Balance - beginning of year		61,387	60,303
Shares issued under employee share purchase plan	25	78	307
Shares issued under equity incentive plan	25	-	55
Share grants issued under equity incentive plan	25	1,148	912
Share grants forfeited under equity incentive plan	25	(258)	(109)
Treasury shares allocated	25	4	-
Deferred share grant	25	(197)	(81)
Balance - end of year		62,162	61,387
Accumulated other comprehensive loss			
Balance - beginning of year		(7,996)	(7,598)
Other comprehensive income (loss) for the year		756	(398)
Balance - end of year		(7,240)	(7,996)
Retained earnings			
Balance - beginning of year		193,892	177,645
Net income for the year		14,365	23,908
Cash dividends		(7,688)	(7,661)
Balance - end of year		200,569	193,892
Total equity attributable to shareholders of the company		264,492	257,487
Attributable to non-controlling interests			
Balance - beginning of year		44,846	43,810
Net income for the year		2,664	3,964
Other comprehensive loss for the year		(11)	(385)
Cumulative foreign exchange adjustment		36	-
Shares issued to non-controlling interests		51	65
Cash dividends		(2,794)	(2,608)
Balance - end of year		44,792	44,846
Total equity		309,284	302,333

The dividends paid in 2016 and 2015 were \$7,688 (\$0.88 per share) and \$7,661 (\$0.88 per share) respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

(in thousands of Bermuda dollars)

	2016 \$	2015 \$
Cash flows from operating activities		
Income before income taxes	17,860	30,132
Adjustments for:		
Investment income	(20,365)	(20,920)
Net realised gain on investments	(862)	(4,068)
Change in fair value of investments	1,485	10,537
Provision for losses on investments	1,942	6,615
Amortisation of property and equipment	2,300	2,266
Amortisation of investment properties	922	921
Amortisation of intangible assets	5,434	5,490
Impairment of available-for-sale investments	64	20
Impairment/ (reversal) of investment properties	453	(96)
Impairment of intangible assets	3,325	1,652
Loss on disposal of subsidiary	-	637
Loss/ (gain) on sale of property and equipment	8	(24)
Interest on loan	40	69
Compensation expense related to shares and options	1,137	1,039
Changes in assets and liabilities:		
Restricted cash	(1,072)	(5,038)
Fixed & regulatory deposits	8,353	(12,353)
Cash in assets held for sale	-	6,123
Insurance receivables and other assets	(15,480)	5,693
Deferred policy acquisition costs	(943)	1,166
Reinsurance assets	(32,926)	24,565
Tax recoverable	-	(340)
Insurance contract liabilities	49,570	(40,052)
Investment contract liabilities	808	6,683
Other liabilities	10,619	(51)
Retirement benefit obligations	(556)	(297)
Cash generated from operations	32,116	20,369
Income taxes paid	(2,415)	(2,612)
Interest and dividends received	21,055	19,277
Net cash generated from operating activities	50,756	37,034
Cash flows from investing activities		
Purchase of investments	(242,598)	(194,544)
Proceeds from sales of investments	227,271	232,697
Acquisition of property and equipment	(2,078)	(2,562)
(Purchase)/ maturity of fixed deposit	(2,017)	2,021
Proceeds from sales of property and equipment	66	29
(Acquisition)/ disposal of investment properties	(1,141)	90
Acquisition of intangible assets	(7,909)	(11,170)
Cash proceeds from disposal of subsidiary	-	7,300
Cash disposed on disposal of subsidiary	-	(14,386)
Net cash (used for)/provided by investing activities	(28,406)	19,475
Cash flows from financing activities		
Cash dividends paid	(7,688)	(7,661)
Interest paid	(40)	(69)
Loan repaid	(646)	(646)
Acquisition of treasury shares	(1,862)	-
Cash dividends paid to non-controlling interest	(2,794)	(2,608)
Cash proceeds on issue of common shares	384	180
Net cash (used for) financing activities	(12,646)	(10,804)
Effect from changes in exchange rates	(105)	(213)
Increase in cash and cash equivalents	9,599	45,492
Cash and cash equivalents - beginning of year	99,297	53,805
Cash and cash equivalents - end of year	108,896	99,297

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements

For the year ended 31 December 2016

(in thousands of Bermuda dollars)

1. NATURE OF THE GROUP AND ITS BUSINESS

BF&M Limited (the "Group") was incorporated in Bermuda on 5 August 1991, as a holding company, and is a public limited company listed on the Bermuda Stock Exchange. The address of its registered office is: 112 Pitts Bay Road, Pembroke HM08, Bermuda.

The Group's principal business is insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the premium, settlement of claims, and estimation of claim costs and management of investment funds.

The Group is involved in property, casualty, motor, marine, life, health and long-term disability insurance, annuities, the management and investment of pension plans, as well as the rental of office space in buildings owned by the Group.

The Group has the following subsidiaries:

	% owned	Principal country of operation and incorporation
BF&M General Insurance Company Limited ("BF&M General")	100	Bermuda
BF&M Investment Services Limited ("BFMISL")	100	Bermuda
BF&M Life Insurance Company Limited ("BF&M Life")	100	Bermuda
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
Hamilton Reinsurance Company Limited ("Hamilton")	100	Bermuda
Kitson Insurance Services Ltd. ("KISL")	100	Bermuda
Barr's Bay Properties Limited ("Barr's Bay")	60	Bermuda
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda
Hamilton Financial Limited ("Hamilton Financial")	100	St. Lucia
Insurance Corporation of Barbados Limited ("ICBL")	51.3	Barbados
Insurance Corporation of Barbados Limited/ National Insurance Board Joint Venture ("ICBLJV")*	37.2	Barbados
BF&M (Canada) Limited ("BF&M Canada")	100	Canada
Island Heritage Insurance Company, Ltd. ("IHIC")	100	Cayman Islands
Island Heritage Insurance Company, Ltd. NV.	100	Netherlands Antilles
Lawrence Boulevard Holdings Limited	100	Cayman Islands

*ICBL owns 72.35% of ICBLJV and controls the operations of the entity.

In 2015 the Group disposed of Bermuda International Insurance Services Limited and acquired Kitson Insurance Services Ltd. Further details are provided in Note 4 Acquisitions and Dispositions.

All subsidiary undertakings are included in the consolidated financial statements with any portion not owned by the Group reflected in non-controlling interest; in addition, all subsidiaries have a 31 December year-end.

On 5 April 2017 the Board of Directors approved the financial statements and authorised them for issue. The Board of Directors has the power to amend the financial statements after issue.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB").

B. BASIS OF PREPARATION

i) Basis of measurement

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of: available-for-sale financial instruments and certain segregated fund assets and liabilities measured at fair value; retirement benefit obligations measured at present value; and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Notes to Consolidated Financial Statements

For the year ended 31 December 2016

(in thousands of Bermuda dollars)

The consolidated statement of financial position is presented in order of liquidity.

ii) Critical Estimates, Judgments and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the asset or liability affected. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these financial statements including:

- The actuarial assumptions used in the valuation of life and health insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Note 2N and sensitivities are discussed in Note 5B.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 5B.
- In the determination of the fair value of financial instruments, the Group's management exercises judgment in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy. Refer to Note 8.
- Management considers the synergies and future economic benefits to be realised in the initial recognition and measurement of goodwill and intangibles assets as well as testing of recoverable amounts. The assessment of the carrying value of goodwill and intangible assets relies upon the use of forecasts and future results. Refer to Note 2M and Note 18.
- The actuarial assumptions used in determining the liability and expense of the Group's retirement benefit obligations. Management reviews previous experience of its plan members and market conditions for the year. Refer to Note 22.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties providing collateral for mortgages. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Note 8 and 15.
- The Group operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Group's tax provision and the carrying amounts of its tax assets and liabilities. Refer to Note 17.

C. CONSOLIDATION

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is transferred to the Group and deconsolidated on the date control ceases. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, including liabilities arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated on consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

ii) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group.

D. DETERMINATION OF FAIR VALUE

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability.

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation techniques such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and inputs. For bonds and fixed income

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securities, broker quotes are typically used when external public vendor prices are not available. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors. A description of the fair value methodologies and assumptions by type of asset is included in Note 8.

E. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

F. FOREIGN CURRENCY TRANSLATION

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All amounts in the consolidated financial statements, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency.

ii) Transactions and balances

Monetary assets and liabilities denominated in currencies other than the functional currency of the Company or its subsidiaries are translated into the functional currency using the rate of exchange prevailing at the balance sheet date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed in the consolidated statement of income.

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets classified as available for sale are included in other comprehensive income.

iii) Group companies

The financial statements of foreign operations are translated from their respective functional currency to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at rates of exchange at the balance sheet date, and income and expenses are translated using the average rates of exchange. The accumulated gains or losses arising from translation of functional currencies to the presentation currency are included in other comprehensive income on the consolidated statement of comprehensive income.

The exchange rate between Barbadian and Bermudian dollars has not changed significantly since the acquisition of the Barbadian operation in 2005. The Cayman Island operation's functional currency is in United States dollars, which are on par with Bermuda dollars. As a result there are no unrealised translation gains and losses to be reported other than for BF&M Canada.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term highly liquid financial assets with original maturities of three months or less, and bank overdrafts.

Restricted cash and cash equivalents consists of cash being held on account of various pension plans and cash held on account for dividends issued but not collected to satisfy regulatory requirements. These amounts are not available for use in the Group's daily operations and therefore are excluded in the statement of cash flows.

H. FIXED AND REGULATORY DEPOSITS

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories. Fixed deposits are financial assets with maturity dates longer than 90 days and are held with financial institutions.

I. FINANCIAL INSTRUMENTS

i) Financial assets

Classification, recognition and subsequent measurements of financial assets

The Group classifies its investments into the following categories: a) financial assets at fair value through profit and loss ("FVTPL"); b) held-to-maturity; c) loans and receivables; and d) financial assets available for sale. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

a) FVTPL

A financial asset is classified at FVTPL if it is designated as such upon initial recognition or is classified as held-for-trading. A financial asset can be designated as FVTPL if it eliminates or significantly reduces an accounting mismatch. A financial asset is classified as held-for-trading if it is acquired mainly for the purpose of selling in the near term or traded for the purposes of earning investment income. Attributable transaction costs upon initial recognition are recognised in investment income in the consolidated statement of income as incurred. FVTPL assets are measured at fair value and changes in fair value as well as realised gains and losses on sales are recognised in investment income in the consolidated statement of income. Dividends earned on equities are recorded in investment income in the consolidated statement of income. Derivatives are also categorised as held-for-trading unless they are designated as hedges. The Group has not designated any derivatives as hedges.

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b) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in investment income in the consolidated statement of income.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

c) *Loans and receivables*

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment loss. For purposes of this classification loans and receivables are comprised of fixed income securities (held in Barbados), mortgages and other loans. Realised gains or losses from the sale of loans and receivables are recorded in investment income in the consolidated statement of income.

d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Equities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets available for sale are included in the consolidated statement of comprehensive income in the period in which they arise. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of income.

All other financial assets (including fixed income securities classified as loans and receivables) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected in the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

De-recognition and offsetting

The Group derecognises a financial asset when the rights to receive cash flows from the financial asset have expired or have been transferred and the Group has transferred substantially all the risk and rewards of ownership of the financial asset, which is normally the trade date.

Investment income

Dividends on equity instruments are recognised in the consolidated statement of income on the ex-dividend date. Interest income is recorded on the accruals basis, using the effective interest rate method, in investment income in the consolidated statement of income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

ii) **Financial liabilities**

Classification, recognition and subsequent measurement of financial liabilities

The Group has the following financial liabilities: a) financial liabilities at FVTPL and b) other financial liabilities. Management determines the classification at initial recognition.

a) *FVTPL*

The Group's financial liabilities at FVTPL relate to contingent consideration associated with the acquisition of KISL (see Note 4A) and certain investment contract liabilities. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in investment contract benefits in the consolidated statement of income.

b) *Other financial liabilities*

All remaining financial liabilities are classified as other financial liabilities which include certain investment contract liabilities incepted in Barbados, loans payable, and other liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Loans payable are subsequently carried at amortised cost. Any excess between the proceeds (net of transaction cost) and the redemption value is recognised in the consolidated statement of income over the period of the loan using the effective interest rate method. Included under other liabilities are accounts payable. Other liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

The Group initially recognised loans payable on the date the loan originated. All other liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

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J. IMPAIRMENT OF ASSETS

i) Impairment of financial assets

The Group reviews the carrying value of its financial assets, except those classified as FVTPL, at each period end for evidence of impairment and reversal of previously recognised impairment losses. These assets are considered impaired if there is objective evidence of impairment as a result of one or more loss events that have an impact that can be reliably estimated on the estimated future cash flows of the asset and the financial assets carrying value exceeds the present value of the estimated future cash flows. Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to the following: (i) failure to make scheduled payments of capital and/or interest, (ii) adverse changes in the payment pattern of the borrower and (iii) significant deterioration in the fair value of the security underlying the financial asset.

a) *Loans and receivables*

When loans and receivables assets (other than collateralised mortgage loans) carried at amortised cost are impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. For collateralised mortgage loans the carrying amount is reduced to its recoverable amount, being the future cash flow of the collateralised value less cost to sell discounted at the original effective interest rate of the instrument. For all loans and receivables where an impairment loss has occurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in investment income in the consolidated statement of income.

b) *Financial assets classified as available-for-sale*

In the case of equity financial assets classified as available-for-sale, in addition to types of events listed above, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

When an available-for-sale asset is impaired, the loss accumulated in other comprehensive income is reclassified to investment income in the consolidated statement of income. The cumulative loss that is reclassified from other comprehensive income to investment income is measured as the difference between the acquisition cost and the current fair value of the financial assets less any impairment loss previously recognised in the consolidated statement of income. If, in a subsequent period, the fair value of a financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the consolidated statement of income.

ii) Impairment of non-financial assets

The Group's non-financial assets comprise investment properties, property and equipment and intangible assets. Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever there is objective evidence of impairment. Objective evidence includes, but is not limited to the following: (i) adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability; (ii) the likelihood of accelerated obsolescence arising from the development of new technologies and products; and (iii) the disintegration of the active market(s) to which the asset is related. If objective evidence of impairment exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised as part of amortisation expense in the consolidated statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions of the time value of money and the risks specific to the asset. Assets which cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (cash-generating units), except where the value in use of an asset can be estimated as being close to its fair value less costs to sell where fair value can be reliably determined.

K. INVESTMENT PROPERTIES

Investment properties are defined as properties with an insignificant portion that is owner occupied and are held for long-term rental yields or capital appreciation and comprise freehold land and buildings. Properties that do not meet these criteria are classified as property and equipment. Investment properties are initially recognised at cost in the consolidated statement of financial position. Subsequently, investment properties are carried at historical cost less depreciation. Depreciation on investment properties is calculated using the straight-line method over 50 years, excluding land and its residual value. Rental income from investment properties is recognised on a straight-line basis over the term of the lease in rental income in the consolidated statement of income. Expenditures relating to ongoing maintenance of investment properties are expensed. The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

L. PROPERTY AND EQUIPMENT

Owner occupied properties and all other assets classified as property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures relating to ongoing maintenance of property and equipment are expensed as incurred in operating expenses in the consolidated statement of income.

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Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

Computer hardware	3 years – 5 years
Motor Vehicles	5 years
Furniture and equipment	5 years – 10 years
Leasehold improvements	the shorter of the lease term or 5 years – 10 years
Buildings	50 years

The assets' residual values, useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in commissions and other income in the consolidated statement of income.

M. INTANGIBLE ASSETS

Intangible assets include finite life assets, goodwill and indefinite life assets. These assets include the following:

i) Finite life intangible assets

Intangible assets that were determined to have finite lives are amortised on a straight line basis over varying periods of up to 10 years, being the estimated expected lives. The estimated life is re-evaluated when there is objective evidence of impairment (refer to Note 2(J)(ii)). For assets that are not yet in use or subject to amortisation, such as software development costs, the impairment is assessed on an annual basis. Finite life intangible assets include the following:

Customer relationships and contracts

These assets, which comprise customer lists, customer relationships and contracts acquired from the purchase of rights or as part of business combinations, were initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. Subsequently, these assets are carried as cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 10 years, being the expected life of the business assumed. These assets include assets acquired on the acquisition of IHIC and KISL.

Distribution channels

These assets, which comprise agent and bank relationships acquired as part of business combinations, were initially measured at fair value by estimating the net present value of future cash flows from these relationships based on certain historical ratios of gross written premium arising from these distribution channels on business in force at the date of acquisition. Subsequently, these assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 10 years, being the expected life of the business assumed and the business channel relationship. These assets include assets acquired on the acquisition of IHIC.

Brands

These assets specifically include the IHIC and KISL brands acquired during business combinations. They were initially measured at fair value based on the relief of royalty method at the date of acquisition. Subsequently, these assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 2-5 years, based on the expected timing of a potential re-branding strategy for this business. These assets include the Island Heritage and Kitson brand names.

Software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognised as internally generated intangible assets when:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred. Capitalised software development costs for projects in use are amortised on a straight line basis over their useful lives, which range from 5 to 10 years.

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ii) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the acquisition cost over the fair value of the Group's proportionate share of the net identifiable assets and liabilities of an acquired business at the acquisition date. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGU"), which in this case are the acquired businesses on an individual basis. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

iii) Indefinite life intangible assets

The ICBL brand was initially measured at fair value at the date of acquisition. The brand was determined to have an indefinite life because there was no foreseeable limit to the cash flows generated by these intangible assets, nor plans for rebranding, due to the strength of the brand. Indefinite life intangible assets are not amortised. Impairment of this asset is assessed on an annual basis or more frequently if events or circumstances occur that may indicate that the carrying amounts may not be recoverable.

N. INSURANCE AND INVESTMENT CONTRACTS

The Group issues contracts that transfer insurance risk or financial risk or both.

i) Insurance contracts

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Life and health insurance contracts include term, whole life and universal life insurance contracts, group life insurance policies, health insurance contracts and life contingent annuities. The Group holds whole life contracts which may be either participating or non-participating contracts.

Short-term insurance contracts include property, casualty, motor, marine and other specialty insurance contracts. These contracts are all non-participating contracts.

Section a) – d) outlines the recognition and measurement of material financial line items related specifically to insurance contracts.

a) *Deferred policy acquisition costs ("DAC") related to insurance contracts*

For short term insurance contracts, commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies on a straight line basis as premium is earned.

b) *Reinsurance contracts held related to insurance contracts*

The Group uses reinsurance in the normal course of business to manage its risk exposure. Contracts entered into by the Group with reinsurers, under which the Group is compensated by the reinsurers for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Reinsurance assets are measured using the amounts and assumptions associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

To further mitigate underwriting risk, the Group purchases reinsurance to share part of the risks originally accepted by the Group in writing premiums. This reinsurance, however, does not relieve the Group of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Group remains liable to its policyholders for the unrecoverable amounts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are amortised consistent with the underlying insurance contracts.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss in the consolidated statement of income.

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c) *Insurance contract liabilities*

Life and health insurance contracts

These contracts (meaning insurance contract liabilities, both participating and non-participating) include all forms of life, health and accident insurance and life contingent annuities sold to individuals and groups. A provision for life and health insurance liabilities is made which represents the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all in-force life insurance and annuity policies. These benefits are determined using generally accepted actuarial practices according to standards established by the Canadian Actuarial Standards Board ("ASB"). In accordance with these standards, the provisions have been determined using the Canadian Asset Liability Method ("CALM") or an approximation of CALM.

The insurance liabilities under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. Long term business provisions make sufficient allowance for the expected experience scenario and for adverse deviations in experience. Liabilities derived through an approximation to CALM rely on a combination of Group and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations, the largest of which, the group and individual health reserves, relies on a historical analysis of the Group's claims emergence patterns and completion factors. Many of the estimates used in actuarial valuation relate to future events and involve a significant amount of judgment. As a result, these estimates are subject to revision on a regular basis.

In certain life and health reinsurance contracts underwritten by BF&M Life, where the timeliness and quality of information from cedants is not sufficient to provide a reasonable estimate of true premium written, then those premiums are recorded as cash is received from the cedants. An insurance contract liability is calculated and any loss on an underwriting year is recorded in the consolidated statement of income. If any profit is anticipated on an underwriting year then further reserves are established to record to nil underwriting income. This takes place for the first 3 years of each underwriting year programme as this time period is felt to be the minimum time necessary to determine underwriting results.

Expected reinsurance recoveries, net of any required provision for impairment are estimated using principles consistent with the Group's method for establishing the related liability and are recorded in accordance with the terms of the Group's reinsurance agreements.

Short-term insurance contracts

Claims and loss adjustment expenses are charged to insurance contract benefits and expenses in the consolidated statement of income as incurred based on the estimated ultimate liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims.

A provision for short-term insurance liabilities is made for the estimated costs of claims notified but not settled at the balance sheet date, using the best information available at that time. In addition to development on known claims, a provision is included for losses and loss adjustment expenses incurred but not reported on the basis of past experience. The provision is based on an actuarial analysis of the Group's underwriting year or accident year development experience. The provision is determined using generally accepted actuarial practices in Canada. The method of making such estimates and for establishing the resulting provisions is reviewed and updated annually and any adjustments resulting therefrom are reflected in earnings in the period in which they are determined.

Expected reinsurance recoveries on claims, net of any required provision for doubtful amounts, are estimated using principles consistent with the Group's method for establishing the related liability, and are in accordance with the terms of the Group's reinsurance agreements.

d) *Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs ("DAC"). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of income initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

ii) **Investment contracts**

Investment contracts are those contracts that do not transfer significant insurance risk but do transfer financial risk from the policyholder.

Contracts issued that do not transfer significant insurance or financial risk from the policyholder are referred to as service contracts.

The Group issues contracts that in some instances contain a discretionary participation feature ("DPF"). This feature entitles the holder to receive, as a supplement to guaranteed benefits, a dividend. Dividends are paid on the policy anniversary and as long as the policy is in force. These contracts are referred to as participating contracts. IFRS allows the non-guaranteed, or participating, elements of such contracts to be classified as either a liability or as equity, depending on the nature of the obligation to the policyholder. The contracts issued by the Group contain constructive obligations to the policyholder with respect to the DPF of the contracts. The Group has therefore elected to classify these features as a liability, consistent with accounting treatment under the CALM, and in accordance with guidance provided by the Canadian Institute of Actuaries.

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Investment contracts with discretionary participating features are accounted for in accordance with IFRS 4 and investment contracts without discretionary participating features are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

The Group's investment contracts include pension plans with a guaranteed minimum rate of return and annuities that do not transfer insurance risk. All investment contracts issued are non-participating.

Liabilities for investment contracts have been designated at fair value through profit and loss ("FVTPL"), except for certain contracts in Barbados that are measured at amortised cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period using CALM or an approximation of CALM. Changes in investment contract liabilities are recorded as a change in investment contract benefits expense in the consolidated statement of income. These liabilities are derecognised when the obligation of the contract is discharged, cancelled or expired.

iii) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance and investment contract holders. These receivables and payables are included in insurance receivables and other assets, insurance and investment contract liabilities and other liabilities in the consolidated statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables in Note 2J above. The impairment loss is calculated using the same method used for these financial assets.

O. SEGREGATED FUNDS ASSETS AND LIABILITIES

Segregated funds assets and liabilities relates to contracts issued by the Group where the benefit amount to the policyholder is directly linked to the fair value of the investment held in the particular segregated fund. The underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets. The contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. There is also no insurance risk to the Group with these contracts. Segregated funds net assets are recorded at fair value. The fair value of the segregated funds net liabilities is equal to the segregated funds net assets. Income earned on the management of these contracts is included in commission and other income in the consolidated statement of income. Investment income earned by the segregated funds and expenses incurred by the segregated funds are not presented in the consolidated statement of income and are disclosed in Note 19.

P. LOANS TO POLICYHOLDERS

Loans to policyholders are initially measured at fair value and subsequently carried at amortised cost and are fully secured by the policy values on which the loans are made. These loans are classified as loans and included in investments in the consolidated statement of financial position.

Q. CURRENT AND DEFERRED INCOME TAX

The tax expense for the period on the Group's Barbados, Canadian and Cayman Islands operations comprises current and deferred tax. Tax is recognised in the consolidated statement of income, except to the extent that it relates to items recognised in the consolidated statement of comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of carry-forwards of unused tax losses are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. When management's assessment indicates that it is more likely than not that deferred income tax assets will not be realised, a valuation allowance is recorded against the deferred tax assets.

R. EMPLOYEE BENEFITS

The Group operates various post-employment schemes, including both defined benefit pension plans and post-employment medical plans.

i) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. With respect to the Group's defined contribution plans, the Group pays contributions into the plan and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

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A defined benefit plan is a pension plan in which the Group is obligated to pay a specified benefit based on a predetermined formula. The net liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the financial reporting period less the fair value of plan assets. When the calculation results in a surplus, the asset recognised is limited to the present value of the future economic benefit available in the form of future refunds from the plan or reductions in future contributions to the plan (the asset limit). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market interest rates of high-quality debt instruments.

Re-measurement of the net defined benefit asset or liability consists of actuarial gains and losses, the change in effect from asset limits and the return on plan assets, excluding amounts included in net interest on the net defined benefit asset or liability, and are charged or credited to other comprehensive income in the period in which they arise. Current service costs, past services cost, any gains or losses from curtailments and interest on the net defined benefit liability (asset) are recognised immediately in the consolidated statement of income.

ii) Other post-employment obligations

In addition to pension benefits, the Group provides post-retirement benefits for health care to qualified Bermuda retirees and employees in Barbados. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

These costs are recognised on an accrual basis during the years when service is provided to the Group, except for the Bermuda retiree plan where only the interest on the obligation is recognised in the consolidated statement of income as this is a closed plan. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

iii) Share-based compensation

The Group has an Equity Incentive Plan which is described in Note 26 under which the entity receives services from employees as consideration for equity instruments of the Group (equity settled transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income. If the Group grants share options to employees that vest in the future if service conditions are met, then the fair value of the options will be calculated at the date the options are granted. This fair value will be charged to the consolidated statement of income equally over the vesting period with adjustments made at each accounting date to reflect the best estimate of the number of options that will eventually vest. Where share grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognized in relation to such shares is reversed effective the date of forfeiture. Expenses previously recognized related to share options are not reversed on forfeit.

The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to share capital and share premium with a corresponding charge to operating expenses.

iv) Employee share purchase plan

The Group operates an employee share purchase plan that allows its employees to purchase the Group's common shares at below-market rates, subject to certain restrictions. Shares are offered at a discount to the shares' fair market value, as determined by the market share price on the date of purchase. Employees may purchase shares up to a maximum percentage of their gross salary. The discount is charged to compensation expense in the period in which the shares are purchased.

S. REVENUE RECOGNITION

Revenue comprises the fair value for services. Revenue is recognised as follows:

i) Premium income

Premiums on most life and health insurance contracts and life contingent annuity investment contracts are recognised as revenue when due from the policyholder.

Premiums on life and health reinsurance contracts underwritten by BF&M Life are recognised based on receipts reported by the ceding company. This occurs when the timeliness and quality of information reported by the ceding company is not sufficient to otherwise record the revenue when due.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not recorded as revenue in the consolidated statement of income. Only those contributions used to cover insured risk and associated costs are treated as premium income. These include fees for the cost of insurance and administrative charges.

For short-term insurance products, premiums written are earned on a pro-rata basis over the terms of the policies to which they are related. Unearned premiums represent the portion of premiums written that relate to the period of risk subsequent to the year-end. Unearned premiums are included as a component of insurance contract liabilities in the consolidated statement of financial position.

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ii) Commission income

For short-term reinsurance contracts, commission income is recognised over the term of the related reinsurance contracts and in accordance with the expensing of the related reinsurance premiums. Commission income on long-term insurance contracts is recognised when earned and the amount is readily determinable. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

iii) Service contracts

Revenue arising from the management of service contracts, pension administrative services and investment advisory and management services offered by the Group is recognised in the accounting period in which the services are rendered. This revenue is included within commission and other income in the consolidated statement of income.

T. LEASES

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases where the Group is the lessee are included within operating expenses in the consolidated statement of income.

Where the Group is the lessor under an operating lease for its investment properties, lease arrangements are fixed and income is credited to the consolidated statement of income on a straight-line basis over the period of the lease. In addition the tenant can renew their lease when their tenancy is nearing expiry. There are no contingent rentals included in the lease agreements.

U. SHARE CAPITAL AND TREASURY SHARES

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity.

Where the Group purchases the Group's common shares, for example as the result of a share buy-back, the consideration paid, including any directly attributable costs is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transactions costs, is included in equity.

V. DIVIDEND DISTRIBUTION

Dividend distribution to the Group's shareholders' is recognised as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Group's Board of Directors.

W. EARNINGS PER SHARE

Basic earnings per share is presented in the consolidated statement of income and is calculated by dividing the shareholders' net earnings for the year by the weighted average number of ordinary shares outstanding, excluding treasury shares, at the reporting date.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

3. NEW AND REVISED ACCOUNTING STANDARDS

A. NEW AND REVISED ACCOUNTING STANDARDS ADOPTED IN 2016

The Group has applied the following standards and amendments for its annual reporting period commencing 1 January 2016:

- i) Annual improvements to IFRSs 2012-2014
- ii) Disclosure initiatives, amendments to IAS 1 – *Presentation of Financial Statements*

The adoption of these amendments did not have any significant impact on the current period or any prior period and is not likely to significantly affect future periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

B. NEW AND REVISED ACCOUNTING STANDARDS TO BE ADOPTED IN 2017 OR LATER

The standards and interpretations that are issued, but not yet effective, are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) – IFRS 15 was issued in May 2014 and establishes principles about the nature, timing and uncertainty of revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Additional guidance was issued in April 2016. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 is to be applied retrospectively, or on a modified retrospective basis. Insurance and investment contracts are not in the scope of this standard. The Group is assessing the impact of this standard.

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IFRS 9 - Financial Instruments (“IFRS 9”) – In July 2014, the IASB issued the final version of this standard that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until 2021 (the “deferral approach”). The Group is assessing the impact of the standard and whether the Group will qualify for the deferral approach. If qualification occurs and the Group elects the deferral approach permitted under the amendments, the Group will continue to apply IAS 39, the existing financial instrument standard until 2021.

IFRS 4 – Insurance Contracts (“IFRS 4”) – In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two voluntary alternative options for entities issuing contracts within the scope of IFRS 4.

- The deferral option enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018.
- The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

The Group is currently assessing the impact of the amendments and which approach will be required or selected.

IFRS 16 – Leases (“IFRS 16”) – In January 2016, the IASB issued this standard which introduces new guidance for identifying leases as well as a new right-of-use accounting model for lessees, replacing the operating and finance lease accounting models that currently exist. The new accounting model will generally require all lessees to recognise lease assets and liabilities on the balance sheet, initially measured at present value of unavoidable lease payments for all leases with a maximum possible term of more than 12 months. In contrast to the significant changes for lessees, the new standard will retain many key aspects of the current lessor accounting model. The standard also requires more note disclosure for both lessees and lessors. The standard is effective 1 January 2019. The Group is evaluating the impact of the adoption of this standard.

IFRS 2 – Share-based Payments (“IFRS 2”) – The IASB issued amendments to IFRS 2 *Share-based Payments* in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are to be applied prospectively with retroactive application permitted. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IAS 7 – Statement of Cash flows (“IAS 7”) – Amendments to this standard were issued in January 2016 and are effective for annual periods beginning after 1 January 2017, to be applied prospectively. These amendments require companies to provide information about changes in their financing liabilities. Adoption of these amendments is not expected to have a significant impact on the Group’s Consolidated Financial Statements.

Annual Improvements 2014–2016 Cycle – This was issued in December 2016 resulting in minor amendments to three standards and are effective for the Group starting 1 January 2017. While the Group is assessing the impact of these amendments, adoption of these amendments is not expected to have a significant impact on the Group’s Consolidated Financial Statements.

IAS 40 – Investment Property (“IAS 40”) – Amendments to this standard were issued in December 2016 and clarify that an entity shall transfer property to, or from, investment property when there is evidence of a change in use. The amendments are effective starting 1 January 2018. The Group is assessing the impact of these amendments.

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IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) – IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and non-monetary assets or liabilities are recognised prior to recognition of the underlying transaction. The foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. The Group is assessing the impact of this IFRIC.

There are no other new or amended IFRS’s or IFRIC interpretations that are not yet effective that would be applicable and expected to have a material impact on the Group.

4. ACQUISITIONS AND DISPOSITIONS

A. ACQUISITION OF KITSON INSURANCE SERVICES LTD.

On 30 September 2015, the Group acquired 100% of the common shares of Kitson Insurance Services Ltd. (“KISL”), a Bermuda licensed insurance agent and broker. KISL is primarily engaged in providing general insurance services including home and commercial property.

The contingent consideration arrangement requires BF&M General to pay, in cash, to the former owners of KISL, two additional payments of up to \$625 each. One payment of \$576 was made within 12 months post closing and the other is due to be made 24 months post closing. The payment amount is based on the actual gross written premium in each of the two following years compared to the amount of annualised premiums on KISL’s in-force policies as at 1 April 2015, as a percentage of the maximum annual payment of \$625. As at 31 December 2016 the fair value of the contingent consideration remaining was \$519 (2015 - \$916). With the first payment complete, the potential undiscounted amount of all future payments BF&M General could be required to make under this arrangement is between \$0 and \$625.

The fair value of the contingent consideration was estimated by applying the discounted cash flow approach. The fair value estimates were based on a discount rate of 15.5%, an estimate of business retention of 92.5% and an attrition rate of 11.5%. These were the key unobservable inputs in arriving at management’s assumption.

B. DISPOSITION OF BERMUDA INTERNATIONAL INSURANCE SERVICES LIMITED

On 13 April 2015, the Group finalised the disposal of Bermuda International Insurance Services Limited (“BIISL”), a subsidiary which specialised in insurance to international high net worth individuals. The disposal was completed via a merger with an unrelated party where the Group received consideration from the surviving party for disposal of its interest. The total sale proceeds were \$7,313 which consisted of a base purchase price of 100% of the net book value of the assets as at 31 December 2014, \$14,740, less a discount of \$450, less purchase price adjustments reflecting the reduction in net assets between 31 December 2014 to the disposal date. These purchase price adjustments included a return of contributed surplus to the Group of \$6,620 and non-payment of contingent consideration of \$357.

The loss on disposal was computed as follows:

For the year ended 31 December 2015	\$
Disposal proceeds	7,313
Less: Transaction costs	(239)
Net proceeds	7,074
Less: Net assets	7,950
Net loss on disposal	(876)

This loss is reflected within operating expenses within the Statement of Income in 2015.

This subsidiary was included within our health, life, annuity and pension (Bermuda) reporting segment. The operations and cash flows of this subsidiary were clearly distinguished, operationally and for financial reporting purposes. However, while separate, it did not represent a major line of business for the Group and was not separately disclosed as discontinued operations.

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5. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

Risk management and objectives

The Group's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed. The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. The Group has established a risk management function with terms of reference from the Board of Directors, its committees, and the associated executive management committees. This is supplemented with an organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Risks are usually grouped by risk type: financial, including credit, liquidity, market, and insurance, including life and health insurance and short term insurance risk. Risks falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity, and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Assets which relate to certain life insurance and investment contracts are managed for the account and risk of the Group's customers. They are segregated and managed to meet specific investment objectives of the policyholders. The assets back the insurance liabilities and the financial liabilities arising from these contracts. The fair value of the liabilities reflects the fair value of the assets.

A. FINANCIAL RISKS

i) Credit risk

Credit risk is the exposure that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The Group faces credit risk on its financial assets.

The following policies and procedures are in place to manage this risk:

- Holding a diversified investment portfolio that focuses on quality of investment. The portfolio is monitored and reviewed regularly by management's Investment Committee and by the Board of Director's Finance, Compensation, and Corporate Governance Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single insurer, industry group, asset class or credit rating, unless required by local law or regulation;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Transacting business with well-established reinsurance companies with strong credit ratings.

Maximum exposure to credit risk

The following table summarises the Group's maximum exposure to credit risk related to financial assets. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2016 \$	2015 \$
Cash and cash equivalents	108,896	99,297
Fixed and regulatory deposits	24,248	30,584
Fixed income securities	526,961	517,273
Mortgages and loans	86,371	94,299
Insurance receivables and other assets	92,926	77,095
Reinsurance assets	98,620	65,694
Restricted cash	19,106	18,034
TOTAL	957,128	902,276

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Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

The following table provides details of the carrying value of fixed income securities by industry sector and geographic distribution:

	2016 \$	2015 \$
Fixed income securities issued or guaranteed by:		
Financials	86,348	103,453
Government	88,552	82,314
U.S. Treasury and other agencies	145,173	117,246
Utilities and energy	82,500	88,919
Consumer staples and discretionary	47,291	54,061
Telecom	12,141	8,197
Computer technology products and services	15,644	17,879
Industrials	17,412	17,284
Other	31,900	27,920
TOTAL Fixed income securities	526,961	517,273

	2016 \$	2015 \$
United States	377,243	352,733
Barbados	64,607	71,912
Canada	30,144	37,376
Northern Europe	17,757	29,253
Asia-Pacific	14,613	8,133
United Kingdom	7,184	234
Caribbean excluding Barbados	14,266	13,566
Other	1,147	4,066
TOTAL Fixed income securities	526,961	517,273

The carrying value of mortgages and loans by geographic location is shown in the following table:

	2016 \$	2015 \$
Bermuda	78,567	86,554
Barbados	7,804	7,745
TOTAL Mortgages and loans	86,371	94,299

Credit quality of financial assets

The credit quality of financial assets are assessed quarterly by reference to external credit ratings if available or review of historical and current conditions that existed at the balance sheet date.

As at 31 December 2016

	AAA \$	AA \$	A \$	BBB \$	BB and lower \$	Not rated \$	Total \$
Cash and cash equivalents	13,266	18,028	50,088	23,933	-	3,581	108,896
Fixed deposits	-	1,881	1,640	6,131	-	5,563	15,215
Regulatory deposits	-	-	3,938	1,037	1,662	2,396	9,033
Fixed income securities*	39,492	225,230	162,923	33,559	58,575	7,182	526,961
Restricted cash	-	-	1,605	17,501	-	-	19,106
Total	52,758	245,139	220,194	82,161	60,237	18,722	679,211

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As at 31 December 2015

	AAA	AA	A	BBB	BB and lower	Not rated	Total
	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	9,756	6,834	45,800	35,018	-	1,889	99,297
Fixed deposits	-	1,862	620	4,596	-	6,120	13,198
Regulatory deposits	-	-	3,669	9,670	1,657	2,390	17,386
Fixed income securities*	39,149	211,719	168,250	30,683	55,456	12,016	517,273
Restricted cash	-	-	1,885	16,149	-	-	18,034
Total	48,905	220,415	220,224	96,116	57,113	22,415	665,188

*Not rated fixed income securities relate to assets held within the Group's investment portfolio which are issued by counterparties that are not rated by the rating agencies.

Past due or credit impaired financial assets

Mortgages comprise first mortgages on real property situated in Bermuda and Barbados. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975. In Barbados, loans provided to companies are secured by a certificate of annual repayment of principal and interest by the Barbados National Bank. Other loans are secured by a collateral assignment of life insurance policy proceeds and irrevocable beneficiary designation.

Mortgages and loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. Management exercises judgment in assessing a borrower's ability to meet current and future contractual interest and principal payments including assessing the current financial position of the borrower and the value of the collateral.

The following table provides the outstanding principal balance of the mortgage and loans that are considered past due or impaired:

	2016	2015
	\$	\$
Not past due	66,386	80,748
Past due but not impaired:		
Past due less than 90 days	13,972	6,484
Past due 90 to 180 days	1,468	495
Past due 180 days or more	388	1
Impaired (net of impairment provisions)	4,157	6,571
TOTAL Mortgages and loans	86,371	94,299

Interest accrued on the impaired mortgages amounted to \$4,050 as at 31 December 2016 (2015 - \$3,515).

Significant judgment is applied by management in the determination of impairment including the timing and amount of future collections, costs expected to be incurred to collect or dispose of the collateral, and sale proceeds on any required disposal of collateral.

The reconciliation of the impairment and provision on mortgage and loans is as follows:

	2016	2015
	\$	\$
At 1 January	17,341	12,190
Transfer to available for sale residential properties	-	(743)
Sale of foreclosed mortgage loans	(23)	(721)
Increase in impairment and provision allowances	1,942	6,615
TOTAL At 31 December	19,260	17,341

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A significant estimate in the determination of impairment is the timing of future collections, which is based on the expected timing of liquidating the underlying collateral. Market value fluctuations will impact the value of the collateral and can significantly impact the estimate of impairment. Management estimates that collection will occur within 12 months. An additional impairment of between \$221 and \$434 could be incurred if collection occurred within 18-24 months.

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. The following policies and procedures are in place to manage this risk:

- Management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations;
- Short-term cash flow needs are adequately met by operating cash flows and proceeds from mortgage and loan repayments;
- The Group closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities, and pensions business. Investments in various types of assets occur with a view to matching them to our liabilities of various durations;
- Investments are graded internally on a liquidity level (1 to 4) and the Group looks to maintain adequate levels in highly liquid (1 and 2) securities;
- The ability of the Group's subsidiaries in certain jurisdictions to pay dividends and transfer funds is regulated. The Group maintains appropriate dividend and capital policies to ensure movement of cash flow through the Group as needed;
- Arrangements with reinsurers are made to ensure that recoverables are received in a timely fashion in the event of a liquidity crisis.

The maturity profile of financial assets at 31 December 2016 is as follows:

	Within 1 year \$	2 to 3 years \$	4 to 5 years \$	Over 5 years \$	Total \$	Effective interest rate ranges
Corporate loans	1,979	-	-	-	1,979	1.56% - 2.70%
Policyholder loans	178	357	357	2,677	3,569	4.75% - 8.25%
Mortgages	11,987	7,117	16,117	45,602	80,823	3.50% - 9.00%
Fixed income securities	53,004	110,623	165,568	197,766	526,961	0.24% - 9.75%
Insurance receivables and other assets	92,420	216	254	36	92,926	-
Total	159,568	118,313	182,296	246,081	706,258	
Percent of total	22.6%	16.8%	25.8%	34.8%	100.0%	

The maturity profile of financial assets at 31 December 2015 was as follows:

	Within 1 year \$	2 to 3 years \$	4 to 5 years \$	Over 5 years \$	Total \$	Effective interest rate ranges
Corporate loans	3,487	-	-	-	3,487	1.56% - 2.06%
Policyholder loans	181	362	362	2,710	3,615	4.75% - 8.25%
Mortgages	11,146	6,469	16,619	52,963	87,197	3.50% - 9.00%
Fixed income securities	70,617	120,637	156,414	169,605	517,273	0.20% - 9.75%
Insurance receivables and other assets	74,065	1,886	465	679	77,095	-
Total	159,496	129,354	173,860	225,957	688,667	
Percent of total	23.2%	18.8%	25.2%	32.8%	100.0%	

The maturity profiles of the Group's significant insurance and financial liabilities are summarised in the following tables. Maturity profiles for financial liabilities are disclosed according to contractual maturity dates. Maturity profiles for net insurance liabilities are based on expectations.

The maturity profile of liabilities at 31 December 2016 is as follows:

	Within 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Other liabilities	80,219	-	-	80,219
Loans payable	477	-	-	477
Investment contract liabilities	109,786	232,905	803	343,494
Insurance contract liabilities – net of reinsurance	101,778	3,662	174,968	280,408
TOTAL	292,260	236,567	175,771	704,598

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The maturity profile of liabilities at 31 December 2015 was as follows:

	Within 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Other liabilities	69,600	-	-	69,600
Loans payable	647	476	-	1,123
Investment contract liabilities	116,869	224,795	1,022	342,686
Insurance contract liabilities – net of reinsurance	103,075	3,646	157,043	263,764
TOTAL	290,191	228,917	158,065	677,173

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has operations in several jurisdictions and revenue and expenses are denominated in several local currencies. The Group is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Group's assets, liabilities, and earnings are denominated in Bermuda, Barbados, Cayman, Bahamian or United States dollars;
- The Bermuda, Barbados, Cayman and Bahamian dollars are pegged to the United States dollar;
- The Bermuda dollar is at par with the United States dollar; and
- The Group's Canadian operation is fully integrated. Its assets and liabilities are not considered material.

The Group regularly monitors currency translation fluctuations. Generally, the Group looks to match the currency of its local assets to the currency of the local liabilities they support or to the United States dollar as the currency of the liabilities is generally pegged to the United States dollar. This achieves the objective of mitigating risk of loss arising from movements in currency. Policies written in currencies that are not pegged to the United States dollar are not material and the Group considers the currency risk minimal.

Interest rate risk

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Utilisation of a formal process for managing the matching of assets and liabilities;
- Investing in assets that are suitable for the products sold;
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 5B - Insurance Risk below. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been \$1,926 / 1,898 (2015 – both \$1,791) lower/higher. The interest rate sensitivity impact was calculated using the modified duration method.

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Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting the market.

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, and market.

A 5% increase/decrease in the value of the Group's equity portfolio would increase/decrease the Group's comprehensive income by \$1,188 (2015 - \$979) and the Group's other components of equity by \$218 (2015 - \$206). The price risk sensitivity impact was calculated by using the ending balances in equity at a 5% increase/decrease.

B. INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. Insurance risk is implicit in the Group's insurance business and arises as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks.

i) Life and health insurance risk

Insurance risk in the Group arises through its exposure to mortality and morbidity risks and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses.

Management of life and health insurance risks

The Group has developed an insurance risk policy and guidelines on the practical application of this policy. Individual insurance risks are managed at a business unit level but are also monitored at the Group level.

The impact of insurance risk is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities and the asset liability management framework process. At the Group level the overall exposure to insurance risk is measured through management reporting, stress testing, Minimum Continuing Capital and Surplus Requirement ("MCCSR"), and Bermuda Solvency Capital Requirement ("BSCR") analysis.

The Board of Directors considers the reinsurance coverage across the life and health businesses. It confirms that guidance and procedures are in place for each of the major components of life insurance risk, and that the businesses mitigate against any insurance risk within the parameters for the overall Group risk appetite.

The Board of Directors has also developed guidance for business units on management of a number of areas of insurance risk to ensure best practice is shared throughout the Group and common standards are adopted.

The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group companies select reinsurers, from those approved by the Group, based on local factors, but assess the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Group appetite for credit risk.
- Longevity risk: Whilst individual Group companies are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and the capital implications to manage the impact on the Group-wide exposure and the capital funding that Group companies may require as a consequence.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. Group companies also implement specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss for and reputational damage to the Group. Guidelines have been developed to support the Group companies through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Group companies through the assessment of profitability and frequent monitoring of expense levels.

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Concentration risk

The following table shows life and health insurance liabilities by geographic area.

	2016			2015		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Bermuda	180,027	2,976	183,003	164,723	1,868	166,591
Bahamas	2,748	655	3,403	2,692	427	3,119
Barbados	9,422	(25)	9,397	9,118	(275)	8,843
Other Caribbean & Latin America	2,140	-	2,140	2,190	-	2,190
Total	194,337	3,606	197,943	178,723	2,020	180,743

Assumptions and methodology

The nature of life and health insurance business is such that a number of assumptions are made in compiling these consolidated financial statements. Assumptions are made about investment returns, mortality rates, lapse rate, morbidity, expenses, and premium payment patterns in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. The estimate of the ultimate liability arising from life and health insurance contracts is a significant accounting estimate.

The valuation of liabilities was performed using CALM. In some instances approximations are used due to the nature of liabilities. The approximations are not expected to change the results materially. Best estimate assumptions were generally based on industry and company experience. Provisions for adverse deviations ("PfADs") were determined by applying appropriate margins for adverse deviations ("MfADs") to the best estimate assumptions. A variety of factors are considered in the Group's valuation techniques, such as yield curve, credit spreads, and default assumptions, which have market observable inputs.

a) Mortality

Mortality refers to the rates at which death is expected to occur for defined classes of insured. Management reviews the Group's mortality experience annually, however the portfolio of business is too small to form the basis for any internally produced mortality assumption. Therefore, the Group's mortality assumption is based on industry experience. The assumed mortality rates for life insurance contracts do not reflect any future improvement. For life contingent annuities, the assumed mortality assumption includes future mortality improvement, the effect of which is to increase insurance contract liabilities, based on prescribed mortality improvement rates promulgated by the Canadian Actuarial Standards Board ("ASB").

For life products, a higher mortality would be financially adverse to the Group. For annuity products, a lower mortality would be financially adverse to the Group.

b) Morbidity

Morbidity refers to the likelihood that an insured will contract or develop any number of illnesses. The Group's portfolio of group and individual health business is large enough for an internal analysis of lag and is used as the basis for setting annually renewable premiums. A very small block of individual disability business assumes industry standard morbidity rates when setting assumptions.

Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. An increase in medical claim rates net of reinsurance would increase the actuarial liabilities.

c) Investment Returns

With the exception of assets backing certain participating liabilities, assets are not formally segmented by line of business or product line. Invested assets are notionally segmented to support the actuarial liabilities valued under CALM. For each segment the future cash flows from insurance and investment contracts and the assets supporting them are projected under a number of interest rate scenarios some of which are prescribed for CALM under Canadian Actuarial Standards of Practice or an approximation of CALM. Both current assets and future reinvestment consider credit / asset default risk (assumed to earn a credit spread, including appropriate default provision, above the risk-free Treasury yield based on current and future expected market conditions). U.S. Treasury and Agency bonds were assigned no risk default charge. Other asset defaults were based on industry experience.

d) Expenses

Actuarial liabilities provide for future administrative policy-related expenses. These include the costs of premium collection, claims adjudication and processing, related consulting services, preparation and mailing of policy statements and related indirect expenses and overheads. A unit expense study is performed annually to determine an appropriate estimate of future expenses by liability type. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM.

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e) Lapse

The best estimate lapse assumption is based on a combination of industry and the Group's lapse experience and pricing assumptions for newer products.

Policyholders may allow their policies to terminate prior to the end of the contractual period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options contained in the contract. Assumptions for termination experience on life insurance are based on industry and the Group's experience. Termination rates vary by plan, policy duration and method of premium payment. For universal life policies, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy.

f) Premium payment patterns

Universal life liabilities are sensitive to the amount of discretionary premium received from the policyholders. A premium persistency assumption is made for all universal life products and can vary by plan, age and policy duration.

g) Policyholder dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that future policyholder dividends will change to reflect the experience of the respective participating accounts consistent with the participating policyholder dividend policies.

Sensitivity test analysis

There is considerable judgment required by management in making assumptions in the measurement of insurance and investment contract liabilities. Application of different assumptions may result in a different measure of the liabilities. Therefore, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life and health insurance risks. This assessment is taken at both business unit level and at Group level where the impact of aggregation of similar risks can be measured. This enables the Group to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

The following provides information about management's best estimate of the impact of changes in assumptions used to determine the Group's life and health insurance contract liabilities.

	Change in assumption	Increase (decrease) in liability	
		2016 \$	2015 \$
Mortality rate – life products	+1%	133	122
Mortality rate – annuity products	-1%	338	290
Morbidity – medical claims	+1%	865	842
Expenses	+10%	1,792	1,673
Termination rate	+10%	1,478	1,302

Investment returns

Assets are notionally segmented to correspond to the different liability categories of the Group. For each segment, the projected current asset and liability cash flows are used in CALM under several interest rate scenarios to determine the actuarial liabilities. Asset cash flows are reduced to provide for asset default losses.

Interest rate risk associated with this assumption is measured by determining the effect on the present value of the projected net asset and liability cash flows of the Group of an immediate 1% increase or a 1% decrease in the level of interest rates. These interest rate changes will impact the projected cash flows.

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately \$2,705 (2015 - \$3,299). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately \$3,208 (2015 - \$3,742).

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ii) General insurance risk

Types of risk

General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
- Inadequate reinsurance protection or other risk transfer techniques; and
- Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short term nature such as property, motor and marine insurances. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. Like the life insurance risk, general insurance risk is managed primarily at a business unit level with oversight at a Group level.

Management of general insurance risks

The Group's insurance risk policy sets out the overall framework for the management of insurance risk. As part of the framework, a structure of delegated pricing and underwriting authorities is in place. Pricing is based on assumptions which consider past experience and trends. Insurance exposures are limited through reinsurance. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Significant insurance risks will be reported through the risk management framework. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for claims incurred but not yet reported ("IBNR"), a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

Management under the direction of the Board of Directors monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure. It is responsible for the development, implementation and review of the Group policies for underwriting, claims, reinsurance, and reserving that operate within the risk management framework.

BF&M General, ICBL, and IHIC have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. Where appropriate such mechanisms are employed throughout the business units to promote the adoption of best practice as standard.

Reinsurance strategy

Reinsurance is used to reduce potential loss to the Group from individual large risks and catastrophic events. It may also be used to manage capital or to provide access to specialist underwriting expertise.

Significant reinsurance programmes are reviewed annually at both the business unit and Group level, to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Group. The reinsurance arrangements include quota share and excess of loss catastrophe treaties. In addition to the overall Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

Reinsurance purchases are in line with the strategy set out in the Group's Reinsurance policy. The basis of these purchases is underpinned by extensive financial and capital modeling and actuarial analysis to optimise the cost and capital efficiency benefits from the reinsurance programme.

The reinsurance is placed with providers who meet the Group's counterparty security requirements, and large reinsurance placements may also require approval from the Board of Directors.

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Concentration risk

Processes are in place to manage catastrophe risk in individual business units and at a Group level. The Group cedes much of its catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit.

The concentration of insurance risk before and after reinsurance by territory in relation to the type of general insurance business risk accepted is summarised below, with reference to the carrying amount of the insurance reserve liabilities (gross and net of reinsurance) arising from general insurance contracts:

31 December 2016

Territory		Property \$	Motor \$	All Other \$	Total \$
Bermuda	Gross	5,939	5,261	3,899	15,099
	Net	1,828	4,463	2,175	8,466
Cayman/Other Caribbean	Gross	31,805	3,390	3,079	38,274
	Net	381	2,508	1,652	4,541
Barbados	Gross	1,520	38,107	7,417	47,044
	Net	305	26,401	5,870	32,576
Total	Gross	39,264	46,758	14,395	100,417
	Net	2,514	33,372	9,697	45,583

31 December 2015

Territory		Property \$	Motor \$	All Other \$	Total \$
Bermuda	Gross	3,611	4,458	3,150	11,219
	Net	715	3,862	2,735	7,312
Cayman/Other Caribbean	Gross	2,895	2,752	1,918	7,565
	Net	1,332	1,891	1,001	4,224
Barbados	Gross	2,206	40,592	6,352	49,150
	Net	225	28,488	5,285	33,998
Total	Gross	8,712	47,802	11,420	67,934
	Net	2,272	34,241	9,021	45,534

Assumptions and methodology

The ultimate cost of outstanding contract liabilities are estimated by using a range of standard actuarial claims projections techniques, such as the Incurred Development Methodology and the Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is analysed by either accident period or underwriting period. Claims development is analysed for each geographical area as well as by line of business.

General insurance business claims reserving

The subsidiaries writing general insurance business have a documented reserving policy setting out the basis on which liabilities are to be determined using statistical analysis and actuarial experience. Policies for each subsidiary are in line with relevant local regulation and legislation.

Management monitors and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy.

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Net loss development:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims cost:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
At the end of accident year	18,715	17,437	15,389	16,005	15,895	16,057	17,096	17,004	19,744	24,783	
One year later	18,112	17,299	14,451	14,375	15,052	15,093	16,836	16,429	17,853	-	
Two years later	16,212	14,409	13,357	13,522	15,619	14,914	15,423	15,310	-	-	
Three years later	16,031	13,305	12,550	13,419	15,194	14,104	15,164	-	-	-	
Four years later	16,282	12,582	12,497	13,618	15,075	13,787	-	-	-	-	
Five years later	16,337	12,219	12,192	13,829	15,385	-	-	-	-	-	
Six years later	16,198	12,319	12,168	13,657	-	-	-	-	-	-	
Seven years later	15,397	12,314	12,433	-	-	-	-	-	-	-	
Eight years later	15,523	12,142	-	-	-	-	-	-	-	-	
Nine years later	15,711	-	-	-	-	-	-	-	-	-	
Current estimates of cumulative claims	15,711	12,142	12,433	13,657	15,385	13,787	15,164	15,310	17,853	24,783	156,225
Cumulative payments to date	(14,613)	(11,180)	(11,460)	(12,088)	(13,043)	(11,429)	(12,288)	(11,292)	(12,487)	(14,109)	(123,989)
Net Liability recognised in the consolidated statement of financial position	1,098	962	973	1,569	2,342	2,358	2,876	4,018	5,366	10,674	32,236
Reserve in respect of prior years											4,881
TOTAL reserve included in the consolidated statement of financial position											37,117

Total reserves included in the consolidated statement of financial position:	Total
	\$
Gross	
Bermuda	15,099
Barbados and Cayman Islands	85,318
TOTAL*	100,417
Net	
Bermuda	8,466
Barbados and Cayman Islands	37,117
TOTAL*	45,583

*Does not include unearned premium or claims payable.

6. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

The Group's policy is to maintain a strong consolidated capital base. The Group manages its capital to ensure its continued ability to provide an adequate return to shareholders, exceed insurance regulatory capital requirements, provide flexibility to take advantage of growth opportunities, maintain a strong credit rating, and to support the risks associated with the business of the Group. The Group's capital base is defined as Shareholders' Equity as disclosed in the consolidated statement of financial position.

The Bermuda Monetary Authority ("BMA") is the regulator of the Group. Under the laws and regulations of Bermuda, the Group must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2016, the Group exceeded the minimum requirement.

Management monitors the adequacy of the Group's capital from the perspective of the Bermuda Insurance Act and Companies Act as well as the regulatory requirements of the other jurisdictions in which it operates. The Group's practice is to maintain the capitalisation of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements within the various jurisdictions. In addition, while not a regulatory requirement, BF&M Life follows the capital adequacy measurement established by the Office of the Superintendent of

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Financial Institutions in Canada known as the Minimum Continuing Capital and Surplus Requirements (“MCCSR”). The Group’s investment policies emphasise the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimise the risk that investment activities pose to the Group’s capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

The regulatory requirements for jurisdictions with significant activities are as follows:

A. BERMUDA

Under The Insurance Act 1978 (Bermuda), amendments thereto and the Insurance Account Rules 2016 (“the Legislation”), the Group and the Group’s Bermuda-based insurance subsidiaries are required to annually prepare and file statutory financial statements and a statutory financial return. The Bermuda Solvency and Capital Requirement (“BSCR”) is the prescribed form of capital and solvency return in Bermuda. The BSCR includes a standardised model for assessing the minimum capital required to be held by a company based on a measure of risk associated with an insurance company’s assets, liabilities, premiums and catastrophe risk exposure. The BMA requires all Groups and insurers to maintain their minimum statutory capital and surplus at a level which is 120% of the amount calculated in accordance with the BSCR.

The Act also requires the Group’s Bermuda based P&C insurance subsidiaries to meet minimum liquidity ratios whereby defined relevant assets must exceed 75% of defined relevant liabilities.

The Act limits the maximum amount of annual dividends and distributions that may be paid by the Group’s insurance subsidiaries. Before reducing by 15% or more its total statutory capital, as set out in the prior year’s financial statements, these insurance companies must request the approval of the BMA. In addition, The Bermuda Companies Act (1981) limits the Group’s ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due or if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

B. BARBADOS

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 2003-88 require the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund. Assets representing the fund in the amount of \$7,483 (2015 - \$6,799) are placed in trust in accordance with the regulations of the Barbados Insurance Act.

Section 152 of the Barbados Insurance Act requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the ICBL equals or exceeds the liability in respect of unearned premiums. A surplus reserve of \$18,694 as at 2016 (2015 - \$18,671) is included in ICBL’s shareholders’ equity in accordance with the requirements.

C. CAYMAN ISLANDS

The Cayman Islands Monetary Authority (“CIMA”) has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. The Group is required to maintain capital in excess of the greater of approximately \$300 for domestic insurers or \$1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes the minimum capital requirements for the Group’s assets and liabilities on a risk basis and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license. Additionally, IHIC has regulated insurance operations in several other jurisdictions. At 31 December 2016 and 2015, IHIC was generally in compliance with its regulatory requirements as an external insurer; however, the St. Lucia regulatory filings report an exception in respect of Anti Money Laundering regulatory compliance; management is committed to remediate this exception.

7. SEGMENTAL INFORMATION

Management has determined the operating segments based on a combination of factors, including the products and geographical areas and on the basis of the reports reviewed by the Chief Executive Officer (“CEO”) of the Group that are used to make strategic decisions. All the operating segments used by management meet the definition of a reportable segment.

Health, life, annuity and pension (Bermuda)

This operating segment includes group and individual health and accident, life, disability, annuity and pension products.

Property and casualty (Bermuda)

This operating segment includes the following products: personal and commercial fire, windstorm, burglary, public liability, marine, special types, personal automobile, personal auto-cycle, workmen’s compensation and commercial vehicles.

Real estate (Bermuda)

This operating segment includes the Group’s real estate operations in Bermuda. The Group currently owns and occupies one building and is a majority owner in two buildings that are leased principally to non-related parties.

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Barbados operations

This operating segment is identified by its geographical location. Insurance coverage includes motor, property, marine, miscellaneous accident, group and individual health, group and individual life, and pension business.

Cayman Islands and other Caribbean operations

This operating segment is identified by its geographical location. Insurance coverage includes motor, property, marine, and casualty business.

Corporate and other

Corporate operations consist of corporate level income and expenses and returns from investments not allocated to any operating segments. It also represents the combined operations of two holding companies, a management company, and an investment management company. The Group manages shared services centrally with most costs allocated based on either head count, expenses or revenues. Some central costs are not allocated and remain within the corporate Group.

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. The Group evaluates performance of operating segments on the basis of profit or loss from operations before tax.

Intersegment income is recorded at management's estimate of current market prices.

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2016 is as follows:

Segments	Health, life, annuity, and pension	Property and casualty	Real estate	Barbados operations	Cayman and Other Caribbean operations	Corporate and other	Total
	2016 \$	2016 \$	2016 \$	2016 \$	2016 \$	2016 \$	2016 \$
Income earned from external customers	138,949	32,018	2,910	44,583	39,200	123	257,783
Investment income	6,665	2,380	-	3,337	884	149	13,415
Total income	145,614	34,398	2,910	47,920	40,084	272	271,198
Insurance contracts benefits and expenses	108,860	8,922	-	19,784	10,543	-	148,109
Commission and acquisition expense	2,378	4,015	-	4,910	18,353	-	29,656
Operating expenses	22,727	13,032	699	17,650	9,948	258	64,314
Amortisation expense	1,835	3,818	785	1,272	719	3,553	11,982
Interest on loans	-	-	40	-	-	-	40
Income tax expense	-	-	-	579	117	135	831
Shareholders' net income	8,974	6,307	1,420	3,236	(1,147)	(4,425)	14,365
Impairment losses recognised in income *	1,942	-	-	475	-	3,325	5,742
Assets	1,273,825	111,641	24,631	212,645	171,822	8,137	1,802,701
Fixed asset & intangible expenditures	3,168	4,560	81	1,755	54	403	10,021
Liabilities	1,184,206	58,088	1,493	138,681	107,112	3,837	1,493,417

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension	Barbados operations	Corporate and other	Total
	2016 \$	2016 \$	2016 \$	2016 \$
Mortgages	1,942	-	-	1,942
Available-for-sale investments	-	64	-	64
Intangible assets	-	-	3,325	3,325
Investment properties	-	412	-	412
TOTAL	1,942	476	3,325	5,743

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The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2015 is as follows:

Segments	Health, life, annuity, and pension	Property and casualty	Real estate	Barbados operations	Cayman and Other Caribbean operations	Corporate and other	Total
	2015 \$	2015 \$	2015 \$	2015 \$	2015 \$	2015 \$	2015 \$
Income earned from external customers	126,395	31,769	2,932	47,021	43,337	124	251,578
Investment income	(1,213)	730	-	4,120	110	(3)	3,744
Total income	125,182	32,499	2,932	51,141	43,447	121	255,322
Insurance contracts benefits and expenses	87,208	6,268	-	20,864	5,792	-	120,132
Commission and acquisition expense	2,692	3,986	-	5,280	18,816	-	30,774
Operating expenses	23,551	12,632	640	15,391	9,744	682	62,640
Amortisation expense	1,841	5,101	827	1,566	689	305	10,329
Interest on loans	-	-	69	-	-	-	69
Income tax expense	-	-	-	1,050	947	263	2,260
Shareholders' net income	6,975	5,505	1,493	3,176	7,024	(265)	23,908
Impairment losses recognised in income *	6,615	1,652	-	(76)	-	-	8,191
Assets	1,201,953	110,677	24,311	217,210	124,677	2,898	1,681,726
Fixed asset & intangible expenditures	3,190	1,859	57	2,152	453	524	8,235
Liabilities	1,112,829	53,909	2,175	140,449	66,707	3,324	1,379,393

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension	Barbados operations	Corporate and other	Total
	2015 \$	2015 \$	2015 \$	2015 \$
Mortgages	6,615	-	-	6,615
Available-for-sale investments	-	-	20	20
Intangible assets	-	1,652	-	1,652
Investment properties	-	-	(96)	(96)
TOTAL	6,615	1,652	(76)	8,191

8. FAIR VALUE MEASUREMENTS

A. FAIR VALUE METHODOLOGIES AND ASSUMPTIONS

Management has assessed that the carrying values of cash and cash equivalents, fixed deposits, regulatory deposits, and restricted cash approximate their fair values.

The fair value of fixed income securities which are carried at FVTPL is determined using quoted prices in active markets for identical or similar securities. When quoted prices in active markets are not available, fair value is determined using market standard valuation methodologies, which include discounted cash flow analysis, consensus pricing from various broker dealers that are typically the market makers, or other similar techniques. The assumptions and valuation inputs in applying these market standard valuation methodologies are determined primarily using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of identical or similar instruments, broker-dealer quotes, issuer spreads, bid prices, and reference data including market research publications. In limited circumstances, non-binding broker quotes are used.

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The fair value of equity securities is determined using quoted prices in active markets for identical securities or similar securities. When quoted prices in active markets are not available, fair value is determined using equity valuation models, which include discounted cash flow analysis and other techniques that involve benchmark comparison. Valuation inputs primarily include projected future operating cash flows and earnings, dividends, market discount rates, and earnings multiples of comparable companies.

For disclosure purposes, the fair value for fixed income securities classified as either held to maturity or loans and receivables, and mortgages and loans classified as loans and receivables is determined by discounting the expected future cash flows using a current market interest rate applicable to financial instruments with a similar yield, credit quality and maturity characteristics. Valuation inputs typically include benchmark yields and risk-adjusted spreads from current lending activities or loan issuances. For collateralised mortgages, fair value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Fair values for investment properties and residential properties held for sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally at least once every three years. The most recent appraisals for the properties located in Barbados were performed during August 2016. The Bermuda properties were externally valued as at 31 December 2014. Values are estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental values, assessed rental values or market rental values at a market discount rate; or 2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuation inputs include estimated rental value, rental growth rates, vacancy rates, discount rates, future operating expenses and terminal growth rates. Changes in valuation inputs can have a significant impact on fair value assessed.

The fair value of investments for accounts of segregated fund holders is determined using quoted prices in active markets or independent valuation information provided by investment managers. The fair value of direct investments within investments for accounts of segregated fund holders, such as short-term securities and government and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The methodologies and assumptions for determining the fair values of investment contract liabilities are included in Note 2.O.

The carrying value of the loan payable to a minority shareholder (Note 21) approximates its fair value as the duration of the loan is now under 12 months.

B. FAIR VALUE HIERARCHY

The Group categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Group's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

i) Level 1

Fair value is based on quoted market prices for identical assets and liabilities in an active market at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

ii) Level 2

Fair value inputs for level 2 are inputs, other than quoted prices included within level 1, that are observable for the asset or liability either directly or indirectly. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. These inputs include the following:

- Quoted prices for similar assets and liabilities in an active market
- Quoted prices for identical or similar assets in a market that is not active, the prices are not current, or price quotations vary substantially over time or for which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves.

iii) Level 3

If one or more of the significant inputs is not based on observable market data, the financial assets are included in level 3. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models using market observable data where possible. A transfer from level 2 to level 3 would occur primarily due to decreased observability of inputs in valuation methodology. Conversely, transfers out of level 3 would primarily occur due to increased observability of inputs.

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C. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table presents the Group's assets and liabilities measured at fair value in the consolidated statement of financial position, categorised by level under the fair value hierarchy:

31 December 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash and cash equivalents	108,896	-	-	108,896
Fixed deposits	15,215	-	-	15,215
Regulatory deposits	9,033	-	-	9,033
Restricted cash	19,106	-	-	19,106
Financial assets at FVTPL				
Fixed income securities	145,319	303,936	-	449,255
Equities	20,529	9,537	-	30,066
Available for sale financial assets				
Equities	3,507	848	-	4,355
Residential properties	-	-	954	954
Segregated fund assets	531,837	154,101	-	685,938
TOTAL assets	853,442	468,422	954	1,322,818
Liabilities				
Investment contract liabilities	-	286,605	-	286,605
Segregated fund liabilities	-	685,938	-	685,938
TOTAL liabilities	-	972,543	-	972,543

31 December 2015	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash and cash equivalents	99,297	-	-	99,297
Fixed deposits	13,198	-	-	13,198
Regulatory deposits	17,386	-	-	17,386
Restricted cash	18,034	-	-	18,034
Financial assets at FVTPL				
Fixed income securities	116,277	314,618	-	430,895
Equities	15,454	4,130	-	19,584
Available for sale financial assets				
Equities	3,310	817	-	4,127
Residential properties	-	-	1,500	1,500
Segregated fund assets	479,216	151,843	-	631,059
TOTAL assets	762,172	471,408	1,500	1,235,080
Liabilities				
Investment contract liabilities	-	286,424	-	286,424
Segregated fund liabilities	-	631,059	-	631,059
TOTAL liabilities	-	917,483	-	917,483

During the current year there were no transfers between Levels 1, 2 and 3. In the prior year there was \$568 transferred into Level 3.

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The following table presents the change in Level 3 instruments (Residential properties held for sale) for the year ended 31 December 2016:

	Total \$
Opening balance	1,500
Transfers into Level 3	-
Sales	(568)
Gains or losses recognised in profit or (loss)	22
TOTAL	954

The following table presents the change in Level 3 instruments (Residential properties held for sale) for the year ended 31 December 2015:

	Total \$
Opening balance	1,530
Transfers into Level 3	568
(Sales)	(555)
Gains or losses recognised in profit or (loss)	(43)
TOTAL	1,500

Residential properties are assets carried at fair value on a recurring basis that are categorised as level 3. Significant unobservable inputs include sale proceeds, costs to sell, and timing of sale. A decrease in expected sale proceeds would result in a decrease in fair value. A decrease in either costs to sell or time to sale would result in an increase in fair value.

D. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For assets and liabilities not measured, but disclosed, at fair value in the consolidated statement of financial position, the following table discloses fair value information categorised by level in the preceding hierarchy:

31 December 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	12,385	-	12,385
Loans and receivable financial assets				
Fixed income securities	-	-	68,851	68,851
Mortgages	-	-	79,370	79,370
Policyholder loans	-	-	3,569	3,569
Other loans	-	-	1,979	1,979
Investment properties	-	-	71,445	71,445
TOTAL assets	-	12,385	225,214	237,599
Liabilities				
Investment contract liabilities	-	56,889	-	56,889
Loans payable	-	477	-	477
TOTAL liabilities	-	57,366	-	57,366

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31 December 2015	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	12,420	-	12,420
Loans and receivable financial assets				
Fixed income securities	-	-	80,967	80,967
Mortgages	-	-	85,250	85,250
Policyholder loans	-	-	3,615	3,615
Other loans	-	-	3,487	3,487
Investment properties	-	-	71,552	71,552
TOTAL assets	-	12,420	244,871	257,291
Liabilities				
Investment contract liabilities	-	56,262	-	56,262
Loans payable	-	1,109	-	1,109
TOTAL liabilities	-	57,371	-	57,371

9. CASH AND CASH EQUIVALENTS

	2016 \$	2015 \$
Cash at bank and in hand	93,120	86,733
Short-term bank deposits	15,776	12,564
TOTAL	108,896	99,297

10. REGULATORY DEPOSITS, FIXED DEPOSITS AND RESTRICTED CASH

	2016 \$	2015 \$
Fixed deposits	15,215	13,198
Regulatory deposits	9,033	17,386
Restricted cash	19,106	18,034
TOTAL	43,354	48,618

Regulatory deposits represent amounts placed on deposit with banks and government bodies to satisfy licensing criteria in certain jurisdictions in which the Group operates. These deposits cannot be removed nor the accounts reduced without the prior written consent of the relevant regulator.

The fixed deposits have terms of 365 days with various independent financial institutions. The fixed deposits have various maturity dates, and earn interest of 1.0% – 1.45% per annum.

Restricted cash represents funds held in trust for and on behalf of policyholders of certain pension plans in Barbados. The liabilities of these pension plans are reported in the Group's consolidated financial statements as investment contracts. Restricted cash includes cash in hand, deposits held on call with banks and other short-term highly liquid financial assets with original maturities of less than three months. The carrying value of restricted cash approximates its fair value.

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11. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2016		2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
31 December				
At fair value through profit and loss				
- Fixed income securities	449,255	449,255	430,895	430,895
- Equities	30,066	30,066	19,584	19,584
Held-to-maturity				
- Fixed income securities	12,247	12,385	12,327	12,420
Loans and receivables				
- Other loans	1,979	1,979	3,487	3,487
- Policyholder loans	3,569	3,569	3,615	3,615
- Mortgages	80,823	79,370	87,197	85,250
- Fixed income securities	65,459	68,851	74,051	80,967
	643,398	645,475	631,156	636,218
Available for sale				
- Equities	4,355	4,355	4,127	4,127
- Residential properties	954	954	1,500	1,500
	5,309	5,309	5,627	5,627
TOTAL	648,707	650,784	636,783	641,845

B. INVESTMENT INCOME

	2016 \$	2015 \$
Interest income		
Fixed income securities - at FVTPL	9,120	9,467
Fixed income securities - at amortised cost	5,950	6,384
Mortgages and loans	5,194	5,352
Bank deposits and policyholder loans	338	352
	20,602	21,555
Dividend income		
Equities - at FVTPL	637	433
Equities - available for sale	102	81
	739	514
Net realised gains/(losses) on sale of investments		
Equities - at FVTPL	(46)	270
Fixed income securities - at FVTPL	908	3,766
Equities - available for sale	-	32
	862	4,068
Change in fair value arising from		
Fixed income securities	(3,641)	(9,576)
Equities	2,156	(961)
	(1,485)	(10,537)
Impairments and deductions		
Less: Impairment provision on mortgages and loans	(1,942)	(6,615)
Less: Impairment loss on available for sale assets	(64)	(20)
Less: Impairment loss on investment properties	(412)	96
Less: Allocation to contracts for the account and risk of customers	(4,885)	(5,317)
	(7,303)	(11,856)
TOTAL Investment income	13,415	3,744

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12. INSURANCE RECEIVABLES AND OTHER ASSETS

	2016 \$	2015 \$
Insurance receivables	73,155	57,958
Accounts receivable	11,734	11,140
Accrued investment income	8,037	7,997
TOTAL	92,926	77,095

13. DEFERRED POLICY ACQUISITION COSTS

A reconciliation of the change in deferred policy acquisition costs is shown below:

	2016 \$	2015 \$
At 1 January	8,952	10,118
Recognised deferred acquisition costs	27,161	22,669
Amortisation charge through income	(26,218)	(23,835)
At 31 December	9,895	8,952

14. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2016 \$	2015 \$
Short-term insurance contracts:		
Claims reported and adjustment expenses	44,155	16,970
Unearned premiums ceded	47,392	45,314
Claims incurred but not reported	10,679	5,430
Total short-term insurance contracts	102,226	67,714
Life and health insurance contracts:		
Participating		
Individual life	(1,818)	(1,613)
Non-participating		
Individual life	(4,000)	(3,056)
Individual and group annuities	-	-
Group life	2,192	2,603
Health and accident	20	46
Total life and health insurance contracts	(3,606)	(2,020)
TOTAL Reinsurance assets	98,620	65,694

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15. INVESTMENT PROPERTIES

	2016 \$	2015 \$
Cost	55,636	54,495
Accumulated depreciation	(19,472)	(18,097)
Net book value	36,164	36,398
Year ended 31 December		
At beginning of year	36,398	37,313
Net additions / (disposals) and capital improvements	1,141	(90)
(Impairment) / Reversal	(453)	96
Depreciation	(922)	(921)
Closing net book value	36,164	36,398

Investment properties located in Bermuda consist of Aon House, owned by Scarborough, a 60% owned subsidiary, and Argo House, owned by Barr's Bay, a 60% owned subsidiary. The minority shareholder of Barr's Bay holds an equitable mortgage as security for its loan to Barr's Bay. Additionally, investment properties located in Barbados include land being used for car parking facilities and two buildings being used for rental. One of the Barbados properties has been placed in trust with respect to the statutory funds and if this was to be sold the value of the asset would need to be replaced within the statutory fund.

At 31 December 2016, investment properties with a net book value of \$36,164 (2015 - \$36,398) were estimated to be valued at \$71,445 (2015 - \$71,552) on the basis of their estimated open market value for existing use. During the year ended 31 December 2016 certain investment properties' carrying values exceeded their market values, which resulted in impairment losses of \$453 (2015 impairment loss reversal- \$96).

Rental income generated from these investment properties during the year amounted to \$4,549 (2015 - \$4,537). Operating expenses incurred in support of generating rental income from investment properties was \$1,241 (2015 - \$1,316).

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16. PROPERTY AND EQUIPMENT

	Land and buildings \$	Furniture, equipment and leasehold improvements \$	Computer hardware \$	Motor Vehicles \$	Total \$
At 1 January 2015					
Cost	22,487	9,982	9,373	1,093	42,935
Accumulated amortisation	(3,342)	(7,084)	(7,408)	(516)	(18,350)
Net book value	19,145	2,898	1,965	577	24,585
Year ended 31 December 2015					
Additions	82	1,201	1,225	54	2,562
Disposals	-	(585)	(2,049)	(24)	(2,658)
Disposals – accumulated amortisation	-	585	2,046	22	2,653
Amortisation charge	(431)	(685)	(952)	(198)	(2,266)
Closing net book value	18,796	3,414	2,235	431	24,876
At 31 December 2015					
Cost	22,569	10,598	8,549	1,123	42,839
Accumulated amortisation	(3,773)	(7,184)	(6,314)	(692)	(17,963)
Net book value	18,796	3,414	2,235	431	24,876
Year ended 31 December 2016					
Additions	870	390	807	148	2,215
Disposals	-	(169)	(520)	(158)	(847)
Disposals – accumulated amortisation	-	165	512	96	773
Amortisation charge	(385)	(739)	(981)	(195)	(2,300)
Effect of movement in exchange rates	-	(58)	(79)	-	(137)
Closing net book value	19,281	3,003	1,974	322	24,580
At 31 December 2016					
Cost	23,439	10,819	8,836	1,113	44,207
Accumulated amortisation	(4,158)	(7,816)	(6,862)	(791)	(19,627)
TOTAL Net book value	19,281	3,003	1,974	322	24,580

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17. INCOME TAXES

Income tax is calculated and payable on the profits of ICBL, BF&M Canada, and IHIC which operate in jurisdictions with corporate tax requirements. The rest of the Group operates in non-corporate tax jurisdictions.

A. INCOME TAX

The income tax expense comprises:

	2016 \$	2015 \$
Current tax	901	2,048
Deferred tax	(70)	212
TOTAL Income tax expense	831	2,260

The taxation charge on taxable income differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2016 \$	2015 \$
ICBL, BF&M Canada and IHIC's income before corporation tax	3,694	15,175
Tax calculated at effective rates of 25%*, 31% and 35% respectively	1,333	2,685
Prior year adjustments	(60)	(30)
Effect of different tax rates on taxable income	218	-
Income not subject to tax	(814)	(946)
Expenses not deductible for tax	154	476
Tax under accrual	-	61
Other	-	14
TOTAL Income tax expense	831	2,260

*ICBL's life business is subject to tax at a rate of 5% of gross investment income. All other investment income of ICBL is subject to tax at a rate of 12.5%.

B. DEFERRED TAXES

The deferred tax asset and deferred tax liability relate to the following items:

	2016 \$	2015 \$
Deferred tax assets:		
Net unearned premium	290	377
Deferred ceding commissions	23	255
Outstanding claims	328	24
Tax charge related to components of other comprehensive income/ (loss)	4	-
Deferred tax asset	645	656
Deferred tax liabilities:		
Accelerated tax depreciation	(265)	(322)
Net pension plan liability	(415)	(309)
Tax charge to components of other comprehensive income/ (loss)	(111)	(260)
Deferred acquisition cost	(683)	(661)
Deferred tax liability	(1,474)	(1,552)
Net deferred tax liability	(829)	(896)

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C. TAX RECOVERABLE (PAYABLE)

	2016 \$	2015 \$
Tax recoverable at beginning of year	925	472
Tax payments made	2,415	2,612
Current tax expense for year	(840)	(2,048)
Tax over accrual	3	(111)
Other	-	-
TOTAL Tax recoverable at end of year	2,503	925
Tax payable at beginning of year	-	-
Current tax expense for year	(61)	-
TOTAL Tax payable at end of year	(61)	-
Net tax recoverable	2,442	925

D. IMPACT TO OTHER COMPREHENSIVE INCOME/ (LOSS)

The tax (charge) credit relating to components of OCI is as follows:

	2016		
	Before tax \$	Tax (charge) / credit \$	After tax \$
Re-measurements of post-employment benefit obligations	694	(111)	583
Investments classified as available for sale			
Fair value gains	267	-	267
Currency translation differences	(105)	-	(105)
TOTAL Other comprehensive income/ (loss)	856	(111)	745

	2015		
	Before tax \$	Tax (charge) / credit \$	After tax \$
Re-measurements of post-employment benefit obligations	(283)	(260)	(543)
Investments classified as available for sale			
Fair value losses	(27)	-	(27)
Currency translation differences	(213)	-	(213)
TOTAL Other comprehensive income/ (loss)	(523)	(260)	(783)

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18. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

Segments	Finite life				Indefinite life		Total \$
	Customer relationships and contracts \$	Distribution channels \$	Brands \$	Software development cost \$	ICBL brand \$	Goodwill \$	
At 1 January 2015							
Cost	12,494	14,500	2,000	33,283	697	10,328	73,302
Accumulated amortisation	(10,915)	(3,987)	(1,100)	(9,299)	-	-	(25,301)
Net book value	1,579	10,513	900	23,984	697	10,328	48,001
Year ended 31 December 2015							
Additions	-	-	-	5,673	-	-	5,673
Disposals	(5,795)	-	-	(366)	-	-	(6,161)
Disposals - accumulated amortisation	5,795	-	-	366	-	-	6,161
Amortisation	(902)	(1,450)	(405)	(2,733)	-	-	(5,490)
Impairment losses	-	-	-	(1,652)	-	-	(1,652)
Acquired intangibles	5,457	-	40	-	-	-	5,497
Closing net book value	6,134	9,063	535	25,272	697	10,328	52,029
At 31 December 2015							
Cost	12,156	14,500	2,040	38,590	697	10,328	78,311
Accumulated amortisation	(6,022)	(5,437)	(1,505)	(13,318)	-	-	(26,282)
Net book value	6,134	9,063	535	25,272	697	10,328	52,029
Year ended 31 December 2016							
Additions	-	-	-	7,943	-	-	7,943
Disposals	-	-	-	(34)	-	-	(34)
Disposals - accumulated amortisation	-	-	-	-	-	-	-
Amortisation	(676)	(1,450)	(420)	(2,888)	-	-	(5,434)
Impairment losses	-	-	-	-	(697)	(2,628)	(3,325)
Closing net book value	5,458	7,613	115	30,293	-	7,700	51,179
At 31 December 2016							
Cost	12,156	14,500	2,040	46,499	697	10,328	86,220
Accumulated amortisation	(6,698)	(6,887)	(1,925)	(16,206)	(697)	(2,628)	(35,041)
TOTAL Net book value	5,458	7,613	115	30,293	-	7,700	51,179
Remaining weighted average amortisation period in years	4.5 years	5.3 years	0.3 years	6.5 years	n/a	n/a	

Impairment losses and the amortisation charge on goodwill and intangibles assets are included in depreciation and amortisation in the consolidated statement of income.

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A. GOODWILL AND INDEFINITE LIFE INTANGIBLES

Goodwill represents the excess of the cost of ICBL and IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition is allocated to the ICBL and IHIC operations which are identified as separate CGUs. When testing for impairment, the recoverable amount of each CGU is determined based on value in use. There were no additions, disposals or impairment of goodwill reported during 2015. Changes in the carrying value of the goodwill and indefinite life intangibles for the CGUs with balances is shown below:

	1 Jan 2016 \$	Acquisitions / Disposals \$	Impairment \$	31 Dec 2016 \$	31 Dec 2015 \$
Goodwill					
ICBL	2,628	-	(2,628)	-	2,628
IHIC	7,700	-	-	7,700	7,700
Total goodwill	10,328	-	(2,628)	7,700	10,328
ICBL brand	697	-	(697)	-	697
TOTAL goodwill and indefinite life intangibles	11,025	-	(3,325)	7,700	11,025

Goodwill and intangibles with an indefinite life are assessed for impairment as per the accounting policy described in Note 2J. The recoverable amount of all CGU's has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2017 financial business plans approved by management and are extrapolated using a steady growth rate over the subsequent four years and a terminal value in the calculation. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. The target growth rates reflect the local insurance market conditions, macro-economic factors of the region, and overall Group targets to grow the business and manage costs. Future profits are discounted using a weighted average cost of capital which is risk adjusted for risks specific to that CGU. During the annual impairment assessment, management reviewed its assumptions based on the current challenging conditions and expected delays in recovery of those conditions in certain Caribbean jurisdictions in which the Group operates.

i) ICBL

During 2016, the forecast future cash flows for ICBL were revised to reflect the current and expected future economic environment in Barbados and at ICBL. A review of macro-economic conditions impacting the country noted an increasing debt to GDP ratio, low international reserves, austerity measures, few attractive investment opportunities and a downgraded rating by S&P. The insurance industry is continuing to show increased competition with pressure on premium rates which now mirrors the decline in rates that the Group has noted in other Caribbean jurisdictions. New business opportunities are limited and higher expenses are being noted to perform business. As a result of the revised expected cash flows, the Group assessed that the present value of these net cash flows, the recoverable amount, was less than the carrying value of the CGU. As a result, an impairment charge of \$3,325 was reported which was allocated against the carrying value of goodwill and the ICBL brand indefinite life asset. The impairment charge was recognised in the consolidated statement of income.

This assessment was based on:

	ICBL
Expected growth rate (cash inflows)	2017 plan less 5%, terminal growth rate 0%
Operating expense assumption (cash outflow)	2017 plan plus 5%, terminal growth rate 0%
Discount rate (WACC)	13.5%

ii) IHIC

The recoverable amount of the CGU was assessed to be more than the carrying value and as a result no goodwill impairment charge was recognised in the consolidated statement of income. This assessment was based on:

	Assumption
Expected growth rate (cash inflows)	2017 plan plus 16.6% (reflecting a return to post hurricane activity), terminal growth rate 0%
Operating expense assumption (cash outflow)	Terminal growth rate 0% post 2017
Discount rate (WACC)	12.4%

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A sensitivity on these assumptions was noted as follows:

	Impact to recoverable amount
1% annual reduction in expected growth rate (cash inflows) post 2018	Reduction of \$2,726
1% increase in operating expense assumption (cash outflow) post 2018	Reduction of \$2,569
100 basis point increase Discount rate (WACC)	Reduction of \$2,677

None of these reductions individually would cause an impairment.

These sensitivities are indicative only and should be considered with caution as the effect of the variation in each assumption is calculated in isolation without changing any other assumption, which in practice is unlikely. The estimation of the recoverable amount is an area of significant judgment. Reductions in the estimated recoverable amount could arise from various factors, such as reductions in net cash flows, adverse changes to discount rates and growth rates or any combination.

B. SOFTWARE DEVELOPMENT COSTS

The Group is engaged in significant development of its new core information systems. Costs associated with the development of the system are deferred, to the extent that the cost satisfies the criteria under IAS 38 – *Intangible assets*, until such time that management determines that a component is available for use in the manner expected and then it is amortised over its useful life. Annually, the Group reviews its software development costs for evidence of impairment.

The Group has undertaken a business transformation and renewal programme to implement a common property & casualty solution across the Group. As part of this programme, development of a software solution component was initiated. During 2015, a review was undertaken to assess whether the solution being developed was still the appropriate technical solution for the programme. While the solution under development was considered still viable it was felt that an alternative solution would better achieve the desired results. A review was performed to assess the reusability of the development to date within the new solution. As a result of that review it was determined that development costs in the amount of \$1,652 were non reusable and an impairment in this amount was taken during 2015. This impairment is included within our property and casualty segment reporting. The Group has determined there is no indication of impairment in 2016.

19. SEGREGATED FUNDS

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2016 and 2015 years.

SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	2016 \$	2015 \$
Segregated funds assets – beginning of year	631,059	628,874
Additions:		
Pension contributions	104,144	90,578
Life insurance	-	16
Net realised and unrealised gains/(losses)	28,348	(8,573)
Total additions	132,492	82,021
Deductions:		
Payments to policyholders and their beneficiaries	(71,058)	(73,329)
Management fees	(6,555)	(6,507)
Total deductions	(77,613)	(79,836)
Net additions to segregated funds	54,879	2,185
TOTAL Segregated funds assets – end of year	685,938	631,059

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20. OTHER LIABILITIES

These Include:	2016 \$	2015 \$
Payables and accrued expenses	28,629	21,728
Insurance balances payable	34,917	29,709
Deferred commission income	9,904	10,962
Policyholder dividends payable	4,828	5,029
Dividends payable	1,941	2,172
TOTAL	80,219	69,600

Insurance balances payable include amounts payable to reinsurers and brokers.

21. LOAN PAYABLE

In prior years, the Group borrowed \$6,934 from an affiliated Company of the minority shareholder of Barr's Bay, against the \$7,000 in promissory notes available to finance the construction of Argo House.

Interest on the variable rate loan is adjusted quarterly at the lower of 7% or 2% less than the average of the prevailing per annum First Mortgage rates of banks in Bermuda. Interest accrues on the date of each drawdown and is payable on the last day of each calendar quarter. Repayment of accrued interest is made separately, and began in the year 2006.

Repayment of loan principal commenced in the year 2005 and it is anticipated that the loan will be fully repaid in 2017 (contract maturity – 1 January 2026).

	2016 \$	2015 \$
Current liability portion (payable within 12 months)	477	647
Long-term liability portion	-	476
TOTAL	477	1,123

The carrying amount for the current liability portion of the loan disclosed above reasonably approximates fair value at the reporting date.

22. RETIREMENT BENEFIT OBLIGATIONS

A. DEFINED CONTRIBUTION PENSION PLAN

The Group has established defined contribution pension plans for eligible qualifying employees. Contributions by the Group to these defined contribution plans are subject to certain vesting requirements and are generally a set percentage of an employee's annual income and matched against employee contributions. The cost of the defined contribution pension plans are not reflected in the tables below. An expense of \$1,057 (2015 - \$1,033) equating to the service cost for the year for these employees was reported during the year.

B. POST RETIREMENT MEDICAL PLAN

The Group also sponsors a post-retirement medical benefit plan for its Bermuda employees. The main benefit provided is for health care. Prior to 1 January 2012, the Group paid 50% of the total premiums paid to the insurer and the pensioner paid the balance. Retirees after 31 December 2011 pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who will be prospectively entitled to benefits.

The Group also offers medical insurance benefits to retired employees in Barbados. Prior to 1 January 2014, ICBL paid to the insurer 60% of the total premiums and the pensioner paid the balance. Retirees after 31 December 2013 pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who are entitled to benefits.

Cash contributions to the plan by the Group during 2016 were \$306 (2015 - \$307).

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C. DEFINED BENEFIT PENSION PLAN

The Group sponsors defined benefit pension plans for eligible employees in Bermuda and Barbados under broadly similar regulatory frameworks. These plans are closed to new entrants for employees hired after 1999 for Bermuda and 2007 for Barbados. The defined benefit plans are administered by separate Funds that are legally separated from the Group. Responsibility for governance of the plans including investment and contributions lies jointly with the Group and the Trustees of the pension funds.

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The schemes are generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2016 were \$1,196 (2015 - \$809).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2016.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2016 and 2015:

	2016 \$	2015 \$
Defined benefit pension plan	(771)	22
Medical benefit plan	4,203	4,549
TOTAL Retirement benefit obligations	3,432	4,571

	Defined benefit pension plans		Medical benefit plans	
	2016 \$	2015 \$	2016 \$	2015 \$
Changes in Defined Benefit Obligation				
Balance - beginning of year	51,676	51,861	4,549	4,670
Current service cost	704	780	-	-
Interest expense	2,420	2,396	152	156
Past service cost and gains and losses on settlements	-	(338)	-	-
Actuarial (gains) and losses due to changes in:				
Experience	17	(677)	(183)	35
Economic assumption changes	749	(1,132)	(9)	(5)
Changes in asset ceiling, excluding amounts included in interest expense	698	1,119	-	-
Benefits paid	(2,450)	(2,333)	(306)	(307)
TOTAL Defined benefit obligation - End of year	53,814	51,676	4,203	4,549

	Defined benefit pension plans		Medical benefit plans	
	2016 \$	2015 \$	2016 \$	2015 \$
Changes in Plan Assets				
Fair value - beginning of year	51,654	52,206	-	-
Interest income	3,515	250	-	-
Return on plan assets, excluding amounts included in interest income	740	802	-	-
Employer contributions	1,196	809	306	307
Plan expenses	(70)	(78)	-	-
Benefits paid	(2,450)	(2,335)	(306)	(307)
TOTAL Fair value of plan assets - End of year	54,585	51,654	-	-
NET Defined (benefit) liability recognised in the Consolidated Statement of Financial Position	(771)	22	4,203	4,549

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Amounts recognised in respect of these defined benefit plans:

Net benefit cost recognised in Consolidated Statement of Income	Defined benefit pension plans		Medical benefit plans	
	2016 \$	2015 \$	2016 \$	2015 \$
Current service cost	704	780	-	-
Interest expense / (income)	2,420	2,396	152	156
Expected return on plan assets	(2,510)	(2,513)	-	-
Administrative expense	70	77	-	-
Past services cost and gains and losses	-	(338)	-	-
TOTAL Net benefit cost	684	402	152	156

Re-measurement effects recognised in OCI	Defined benefit pension plans		Medical benefit plans	
	2016 \$	2015 \$	2016 \$	2015 \$
Return on plan assets (excluding amounts included in interest income)	(1,752)	1,394	-	-
Actuarial gains and losses due to change in:				
Experience	45	(558)	(192)	30
Financial assumptions	797	(1,088)	-	-
Adjustments for restrictions on the defined benefit asset	519	765	-	-
TOTAL Re-measurements effects	(391)	513	(192)	30

Accrued benefit obligation and plan assets by country are as follows:

At 31 December 2016	Bermuda \$	Barbados \$	Total \$
Present value of obligation	40,040	17,977	58,017
Fair value of plan assets	(34,508)	(20,077)	(54,585)
TOTAL	5,532	(2,100)	3,432

At 31 December 2015	Bermuda \$	Barbados \$	Total \$
Present value of obligation	38,752	17,473	56,225
Fair value of plan assets	(31,904)	(19,750)	(51,654)
TOTAL	6,848	(2,277)	4,571

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Asset allocation and fair values of the plan assets by major category for the defined benefit pension plan is as follows:

	2016			2015		
	Quoted \$	Unquoted \$	Total \$	Quoted \$	Unquoted \$	Total \$
Equity instruments	6,877	-	6,877	5,403	-	5,403
Fixed income instruments	24,453	10,460	34,913	23,910	10,405	34,315
Real estate	-	2,868	2,868	-	3,011	3,011
Other	-	9,927	9,927	-	8,925	8,925
TOTAL Asset allocation	31,330	23,255	54,585	29,313	22,341	51,654

Pension and medical plan assets include the Group's ordinary shares with a fair value of \$1,148 (2015 - \$943).

Risk

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant are detailed below:

Changes in bond yields – a decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Life expectancy – The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant where inflationary increases results in higher sensitivity to changes in life expectancy.

Inflation risk – The pension obligation is linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with equities inflation, meaning that an increase in inflation will also increase the deficit of the plan or reduce the surplus of the plan.

As the Group's defined benefit plans are closed to new entrants, the volatility associated with future service accruals for active members has been limited and will decline over time.

Actuarial assumptions

The principal actuarial assumptions used in measuring the Group's defined benefit obligations vary depending on whether the obligation is the result of Bermuda or Barbados based operations. The significant weighted-average assumptions as of 31 December 2016 and 2015 are:

	Defined benefit pension plans		Medical benefit plans	
	2016 %	2015 %	2016 %	2015 %
Bermuda				
Benefit cost during the year:				
Discount rate	3.50	3.75	3.25	3.25
Compensation increase	2.00	2.25	-	-
Medical claims inflation*	-	-	6.50	6.50
Defined benefit obligation at end of year:				
Discount rate	3.50	3.50	3.25	3.25
Compensation increase	3.00	3.00	-	-
Medical claims inflation*	-	-	6.50	6.50

*The medical claims inflation trend used to measure the cost and obligation was 6.5% per annum until 2018 and 4.5% thereafter

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	Defined benefit pension plans		Medical benefit plans	
	2016 %	2015 %	2016 %	2015 %
Barbados				
Benefit cost during the year:				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	6.00	6.00	-	-
Medical claims inflation		-	6.00	6.00
Defined benefit obligation at end of year:				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	2.50	2.50	-	-
Medical claims inflation	-	-	6.00	6.00

The expected return on assets assumption for pension cost purposes is the weighted average of expected long-term asset return assumptions by asset class, and is selected from a range of possible future asset returns.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. As the defined benefit plans are closed to new entrants, these assumptions translate into an average life expectancy in years for a pensioner who retired at age 65:

	Defined benefit pension plans		Medical benefit plans	
	2016 In years	2015 In years	2016 In years	2015 In years
Bermuda				
Male	20.07	19.99	20.07	19.99
Female	22.30	22.25	22.30	22.25
Barbados				
Male	20.07	19.92	20.07	19.92
Female	22.30	22.21	22.30	22.21

Significant judgment is used in setting the assumptions used to calculate the Group's retirement benefit obligations. The sensitivity analysis has been determined based on reasonably possible changes of the significant assumptions occurring at the end of the reporting period. Changes in trend rate assumptions by 1% either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plans		Medical benefit plans	
	Increase	Decrease	Increase	Decrease
	2016 \$	2016 \$	2016 \$	2016 \$
Discount rate	5,734	7,048	361	422
Compensation increase	1,089	964	-	-
Average life expectancy	1,544	2,048	244	234
Medical claims inflation	-	-	392	343

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and a change in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

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For the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. The Group's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

The funding requirements are based on a local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increase should be paid immediately to the fund.

Expected contributions to post-employment benefit plans for the year ending 2017 are \$1,500.

The weighted average duration of the defined benefit obligation is 12.90 years.

The weighted average duration of the medical plan obligation is 9.49 years.

Future benefit payments

The following table sets forth the expected future benefit payments of the defined benefit pension and medical plans.

	2017	2018	2019	2020	2021-2032
	\$	\$	\$	\$	\$
Defined benefit pension	2,687	2,855	3,113	3,204	46,133
Medical benefit plan	304	324	322	314	3,060
TOTAL future payments	2,991	3,179	3,435	3,518	49,193

23. INVESTMENT CONTRACT LIABILITIES

The composition of investment contract liabilities and the movement in liabilities are shown below:

Composition of investment contract liabilities	2016	2015
	\$	\$
Guaranteed interest pension		
Bermuda	284,229	283,536
Barbados	56,889	56,262
Term certain annuities	2,376	2,888
TOTAL Investment contract liabilities	343,494	342,686

Investment contract liabilities carried at amortised cost	2016	2015
	\$	\$
At 1 January	56,262	54,459
Pension contributions	2,884	3,806
Net investment income	2,621	2,627
Benefits paid	(4,419)	(4,161)
Management fees deducted	(459)	(469)
TOTAL At 31 December	56,889	56,262

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	2016 \$	2015 \$
Investment contract liabilities carried at fair value		
At 1 January	286,424	281,544
Pension contributions	55,660	38,692
Net investment income	915	3,287
Benefits paid	(40,320)	(27,776)
Management fees deducted	(84)	(249)
Net transfers out	(15,990)	(9,074)
TOTAL At 31 December	286,605	286,424

24. INSURANCE CONTRACT LIABILITIES

A. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2016			2015		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Short term insurance contracts:						
Claims reported and loss adjustment expenses	78,915	(44,155)	34,760	52,334	(16,970)	35,364
Unearned premiums	84,274	(47,392)	36,882	82,801	(45,314)	37,487
Claims incurred but not reported	21,502	(10,679)	10,823	15,600	(5,430)	10,170
Total short-term insurance contracts	184,691	(102,226)	82,465	150,735	(67,714)	83,021
Life and health insurance contracts:						
Participating						
Individual life	30,868	1,818	32,686	29,606	1,613	31,219
Non-participating						
Individual life	18,581	4,000	22,581	19,151	3,056	22,207
Individual and group annuities	118,374	-	118,374	101,572	-	101,572
Group life	11,036	(2,192)	8,844	11,511	(2,603)	8,908
Health and accident	15,478	(20)	15,458	16,883	(46)	16,837
Total life and health insurance contracts	194,337	3,606	197,943	178,723	2,020	180,743
TOTAL Insurance contract liabilities	379,028	(98,620)	280,408	329,458	(65,694)	263,764

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B. CHANGES IN SHORT TERM INSURANCE CONTRACT LIABILITIES

	2016			2015		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
At 1 January						
Claims and adjustment expenses	52,334	(16,970)	35,364	76,264	(35,853)	40,411
Claims incurred but not reported	15,600	(5,430)	10,170	21,654	(11,130)	10,524
Total at 1 January	67,934	(22,400)	45,534	97,918	(46,983)	50,935
Cash paid for claims settled in year	(64,104)	33,576	(30,528)	(52,132)	24,342	(27,790)
Increase in liabilities:						
Arising from current-year claims	92,795	(61,813)	30,982	33,032	(11,429)	21,603
Arising from prior-year claims	3,792	(4,197)	(405)	(10,884)	11,670	786
TOTAL at 31 December	100,417	(54,834)	45,583	67,934	(22,400)	45,534
Claims and adjustment expenses	78,915	(44,155)	34,760	52,334	(16,970)	35,364
Claims incurred but not reported	21,502	(10,679)	10,823	15,600	(5,430)	10,170
TOTAL at 31 December	100,417	(54,834)	45,583	67,934	(22,400)	45,534

The fair value of the net provision for claims and adjustment expenses of \$45,583 (2015 - \$45,534) is \$46,070 (2015 - \$39,778). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

C. UNEARNED PREMIUM LIABILITY

	2016			2015		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
At 1 January	82,801	(45,314)	37,487	84,963	(44,969)	39,994
Premium written during the year	196,570	(128,185)	68,385	195,617	(128,663)	66,954
Premium earned during the year	(195,097)	126,107	(68,990)	(197,779)	128,318	(69,461)
TOTAL at 31 December	84,274	(47,392)	36,882	82,801	(45,314)	37,487
Movement during the year, net of acquisition	(1,466)	2,078	612	2,162	(504)	1,658

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D. CHANGES IN LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

	2016			2015		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Provision for policy benefits	175,384	2,020	177,404	176,391	2,743	179,134
Claims payable	3,481	-	3,481	4,231	-	4,231
Provision for participating policyholders	(142)	-	(142)	341	-	341
Life and health insurance contract liabilities - 1 January	178,723	2,020	180,743	180,963	2,743	183,706
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	16,314	1,345	17,659	5,429	291	5,720
Changes in assumptions:						
Investment returns	1,662	340	2,002	(6,463)	127	(6,336)
Mortality	(524)	27	(497)	127	182	309
Lapse	-	-	-	788	(347)	441
Expense	(997)	(95)	(1,092)	(1,812)	36	(1,776)
Premium payment patterns	-	-	-	301	(108)	193
Other	(172)	(17)	(189)	(316)	4	(312)
Other changes	(199)	(14)	(213)	939	(908)	31
	16,084	1,586	17,670	(1,007)	(723)	(1,730)
Provision for policy benefits	191,468	3,606	195,074	175,384	2,020	177,404
Claims payable	2,430	-	2,430	3,481	-	3,481
Provision for participating policyholders	439	-	439	(142)	-	(142)
TOTAL Life and health insurance contract liabilities – 31 December	194,337	3,606	197,943	178,723	2,020	180,743

The majority of the fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities. As assets supporting future policy benefits are reported at fair value in the consolidated statement of financial position, the change in the value of those assets would be largely offset by a change in the value of liabilities, where the duration of the assets and liabilities are closely matched, resulting in limited changes to surplus.

E. COMPOSITION OF THE ASSETS SUPPORTING LIABILITIES

The composition of the assets supporting life and health insurance contract liabilities is as follows:

	Fixed income securities \$	Mortgages and loans \$	Cash \$	Total \$
31 December 2016				
Participating				
Individual life	28,284	2,228	2,174	32,686
Non-participating				
Individual life	15,710	6,646	225	22,581
Individual and group annuities	77,564	40,811	-	118,375
Group life	3,810	1,854	3,180	8,844
Health and accident	90	332	15,035	15,457
TOTAL	125,458	51,871	20,614	197,943

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31 December 2015	Fixed income securities \$	Mortgages and loans \$	Cash \$	Total \$
Participating				
Individual life	27,473	2,587	1,159	31,219
Non-participating				
Individual life	13,586	8,001	620	22,207
Individual and group annuities	58,986	42,586	-	101,572
Group life	4,094	1,314	3,500	8,908
Health and accident	22	633	16,182	16,837
TOTAL	104,161	55,121	21,461	180,743

25. EQUITY

A. SHARE CAPITAL

	2016 \$	2015 \$
Authorised - 10,000,000 (2015 - 10,000,000) common shares of a par value of \$1 each	10,000	10,000
Issued and fully paid - Common shares of a par value of \$1 each	8,784	8,722

Common shares in issue in the Group rank pari passu with any new common shares issued in the Group. All the common shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Group.

A reconciliation of the number of shares outstanding at the beginning and at the end of the period is as follows:

	2016 # of shares	2015 # of shares
At 1 January	8,722,446	8,651,836
Shares issued under the employee share purchase plan	4,705	18,590
Shares issued under the equity incentive plan	-	3,630
Share grants issued under the equity incentive plan	72,010	55,100
Share grants forfeited under the equity incentive plan	(15,610)	(6,710)
TOTAL at 31 December	8,783,551	8,722,446

B. SHARE PREMIUM AND CONTRIBUTED SURPLUS

Share premium comprises additional paid in capital in excess of the par value. This reserve is not ordinarily available for distribution. Contributed surplus represents additional paid in capital.

C. SHARE BUY BACK

In 2016, the Group's Board of Directors authorised a share repurchase programme up to a maximum of 500,000 shares. As at 31 December 2016, the Group had repurchased 102,115 shares for a total of \$1,862. The repurchased shares are held as treasury shares until reissued or cancelled. The current program expires in April of 2017 and may be renewed at the discretion of the Group and upon approval by the Bermuda Stock Exchange. The repurchase of shares is at the discretion of the Group.

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D. TREASURY SHARES

Treasury shares are shares of BF&M Limited that are held by the Group primarily for the purpose of issuing shares under the employee share purchase scheme or the equity incentive plan. Shares were acquired through purchases on the Bermuda Stock Exchange.

	2016 \$	2016 # of shares
At 1 January	-	-
Acquisition of shares through share buyback	1,862	102,115
Shares issued under the employee share purchase plan	(209)	(12,194)
Shares issued under the equity incentive plan	(388)	(22,635)
TOTAL at 31 December	1,265	67,286

E. ACCUMULATED OTHER COMPREHENSIVE LOSS

This consists of translation adjustments arising from the consolidation of the BF&M Canada operations, unrealised gains and losses on available for sale financial assets, and actuarial gains and losses on employee benefit plans.

F. EMPLOYEE SHARE PURCHASE PLAN

Under the plan 300,000 shares (2015 - 300,000) were made available for employee share purchases. As at 31 December 2016, 300,000 shares had been purchased (2015 - 295,295). During the year, 4,705 (2015 - 18,590) shares were issued. The fair value of the shares amounted to \$83 (2015 - \$325) which was credited to share capital and share premium. The discount of \$12 (2015 - \$48) was charged to compensation expense.

During 2016, a further 12,194 shares were purchased under the employee share purchase plan with shares allocated from treasury shares. The fair value of these shares amounted to \$209 which was credited to treasury shares and share premium. The discount of \$35 was charged to compensation expense.

G. SHARES HELD BY THE GROUP'S DEFINED BENEFIT PENSION SCHEME

As at 31 December 2016, 55,992 (2015 - 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

26. SHARE BASED PAYMENTS

A. SHARE OPTIONS

The Group ceased granting share options as part of its equity incentive plan in 2008. The share options when granted had a ten-year term. The following table summarises the share options issued under the Group's Equity Incentive Plan:

	2016		2015	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Outstanding at beginning of year	85,800	19.48	145,692	18.46
Exercised	(12,545)	16.82	(3,630)	16.19
Forfeited	(29,255)	16.82	(56,262)	17.07
TOTAL Outstanding at end of year	44,000	22.00	85,800	19.48
Exercisable at 1 January 2017 and 2016	44,000	22.00	85,800	19.48

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The remaining weighted average contractual life of the share options is 1 year (2015 – 2.0 years). The Group's share options will be fully vested on 31 December 2018.

The characteristics of options granted in earlier years are as follows:

Share options expiring 1 January	# of options outstanding	# of options exercisable as at 1 January 2017	Exercise price \$
2018	44,000	44,000	22.00

B. RESTRICTED SHARE GRANTS AND RESTRICTED UNIT GRANTS

During the year 71,929 (2015 – 48,390) common shares and 17,978 units (2015 – 12,575) were issued to certain key employees in respect of restricted share grants and restricted unit grants. These are held by the Group and are restricted from sale or use by the employees for three years from the grant date. Restricted unit grants differ from restricted share grants in that no common shares are issued at the time of the grant; instead they are issued after the vesting date. The amount of the benefit to these employees totalled \$1,525 (2015 – \$1,153) and will be amortised through earnings over a three year period with accelerated vesting for employees over 55 years of age. The amount charged to compensation expense in the current year totalled \$1,137 (2015 – \$1,039). The carrying amount of the liability in respect of restricted unit grants, which is included in other liabilities, is \$758.

The following table summarises information about the outstanding share and unit grants:

Restricted share and unit grants vesting	# of shares	# of share units
12 June 2017	52,913	9,938
14 April 2018	45,635	12,575
08 April 2019	71,929	17,978
TOTAL	170,477	40,491

27. COMMISSION AND OTHER INCOME

This includes commission earned from reinsurers and fee income from the management of segregated funds' assets, pension administration and investment management services.

	2016 \$	2015 \$
Commission income	32,492	36,216
Fees earned from management of insurance contracts	234	1,275
Fees earned from management of investment contracts	37	162
Pension administration income	6,433	6,251
Fee income	1,821	3,093
TOTAL Commission and other income	41,017	46,997

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28. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2016 \$	2015 \$
Gross life and health claims and benefits paid	103,889	105,436
Reinsurance recoveries	(4,446)	(6,287)
Change in insurance contract liabilities	16,084	(1,731)
Change in reinsurance assets	1,586	72
Total life and health policy benefits	117,113	97,490
Gross short term claim and adjustment expenses paid	64,104	52,132
Reinsurance recoveries	(33,576)	(24,342)
Change in insurance contract liabilities	33,956	(29,984)
Change in reinsurance assets	(33,488)	24,836
Total short term claim and adjustment expenses	30,996	22,642
TOTAL Insurance contracts benefits and expenses	148,109	120,132

29. OPERATING EXPENSES

	2016 \$	2015 \$
Wages and salaries	35,138	36,213
Professional and consulting fees	5,254	4,618
Post retirement benefit costs	1,893	1,430
IT maintenance contracts	3,919	3,118
Advertising and business development	3,677	3,882
Bank charges and foreign currency purchase tax	1,849	1,258
Office rent, building and utilities costs	3,274	3,001
Disposition/acquisition related expenses	-	1,009
Share expense	1,137	1,039
Compliance, legal and regulatory	1,079	1,334
Office and administration expenses	2,830	2,954
Bad debt	1,519	252
Travel	906	695
Memberships and subscriptions	258	314
Training and development	330	566
Other	1,251	957
TOTAL Operating expenses	64,314	62,640

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30. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2016 \$	2015 \$
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of post-employment benefit obligation		
Balance – beginning of year	(5,699)	(5,528)
Re-measurement of post-employment benefit obligation	583	(543)
Non-controlling interest	141	372
Balance – end of year	(4,975)	(5,699)
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available for sale financial assets		
Balance – beginning of year	(1,964)	(1,950)
Changes in the fair value of available for sale financial assets	267	(27)
Non-controlling interest	(130)	13
Balance – end of year	(1,827)	(1,964)
Currency translation differences		
Balance – beginning of year	(333)	(120)
Unrealised foreign exchange losses on translation of foreign operations	(105)	(213)
Balance – end of year	(438)	(333)
TOTAL	(7,240)	(7,996)

31. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016			2015		
	Income \$	# of weighted average shares	per share amount \$	Income \$	# of weighted average shares	per share amount \$
Net earnings	14,365			23,908		
Basic earnings per share:						
Income available to common shareholders	14,365	8,733,114	1.64	23,908	8,694,975	2.75
Effect of dilutive securities:						
Share options		-			1,228	
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	14,365	8,733,114	1.64	23,908	8,696,203	2.75

The weighted average number of shares, after deducting treasury shares, used in the calculation of diluted earnings per share for 2016 excludes 10,563 (2015 – 11,860) share options granted to employees of the Group, as these would have been anti-dilutive.

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32. RELATED PARTIES

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 36% of BF&M Limited's shares. The remaining shares are widely held.

As disclosed in Note 2C(i), a number of the subsidiaries transacted with the Group during the year in the normal course of business. These transactions are eliminated on consolidation.

Key management personnel have been defined as the executive team and the board of directors of the Group. The following transactions were carried out with key management:

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2016 \$	2015 \$
Sales of insurance contracts and pension services:		
- Key management	151	166
Purchase of services:		
- Key management	213	19

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2016 \$	2015 \$
Salaries and other short-term employee benefits	3,256	3,771
Post-employment benefits	262	176
Other long-term benefits	197	72
Share based payments	704	696
TOTAL	4,419	4,715

Pursuant to Regulation 6.8 (3) of Section 11A of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and officers of the Group in the common shares of the Group at 31 December 2016 were 362,391 (2015 – 395,095) shares. No rights to subscribe for shares in the Group have been granted to or exercised by any director or officer, other than those disclosed in Note 26.

C. LOANS TO RELATED PARTIES

Loans are extended to key management of the Group (and their families) and to companies related to key management. These loans are collateralised by the property acquired with the proceeds of the loan. Mortgage terms are typically no more than 20 years in duration and interest rates are consistent with rates charged by the Group to non-related parties.

	2016 \$	2015 \$
At 1 January	2,290	2,349
Adjustment for changes in key management	(647)	-
Loans extended (repayments received)	342	(189)
Interest charges	5	130
TOTAL at 31 December	1,990	2,290

D. SELF-INSURANCE

The Group self-insures their office buildings reported in property and equipment and in investment properties. The insured asset is reinsured through the Group's reinsurance programme and is subject to the same terms and conditions as other reinsured insurance contracts.

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33. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

Set out below is the summarised financial information for the aggregate of each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position	ICBL		Scarborough / Barr's Bay	
	2016 \$	2015 \$	2016 \$	2015 \$
Total assets	214,746	219,485	21,141	20,899
Total liabilities	143,360	144,692	2,853	2,675
TOTAL Net assets	71,386	74,793	18,288	18,224

Summarised comprehensive income	ICBL		Scarborough / Barr's Bay	
	2016 \$	2015 \$	2016 \$	2015 \$
Net premium earned	34,417	36,904	-	-
Rental income	1,096	1,096	3,453	3,464
Total income	47,920	51,141	3,453	3,464
Total benefits & expenses	43,943	43,862	1,060	1,186
Income before taxes	3,977	7,279	2,393	2,278
Income taxes	(579)	(1,050)	-	-
Net income after taxes	3,398	6,229	2,393	2,278
Other comprehensive income				
Items that will not be reclassified to profit or loss	(334)	(777)	55	14
Items that may be subsequently reclassified to profit or loss	(67)	(29)	-	-
TOTAL Comprehensive income	2,997	5,423	2,448	2,292
TOTAL Income attributable to non-controlling interest	163	306	957	911

Summarised statement of cash flows	ICBL		Scarborough / Barr's Bay	
	2016 \$	2015 \$	2016 \$	2015 \$
Net cash generated from operating activities	3,625	8,173	4,040	2,854
Net cash generated from (used in) investing activities	7,383	908	(726)	(366)
Net cash used in financing activities	(3,624)	(3,472)	(3,046)	(2,446)
Net increase (decrease) in cash and cash equivalents	7,384	5,609	268	42
Cash and cash equivalents at beginning of year	10,618	5,009	789	747
Cash and cash equivalents at end of year	18,002	10,618	1,057	789

Notes to Consolidated Financial Statements

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34. COMMITMENTS AND CONTINGENCIES

A. OPERATING LEASES

i) Group as Lessor

The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings. These agreements include an extension option and terminate between 2017 and 2021. The future minimum lease payments receivable are as follows:

	2016 \$	2015 \$
No later than 1 year	3,385	3,318
Later than 1 year and no later than 5 years	7,987	11,624
Later than 5 years	-	-
TOTAL	11,372	14,942

ii) Group as Lessee

The Group has also entered into various commercial leases as a lessee with renewable options on office space. The future minimum lease payments payable under non-cancellable leases are as follows:

	2016 \$	2015 \$
No later than 1 year	265	300
Later than 1 year and no later than 5 years	276	557
Later than 5 years	-	-
TOTAL	541	857

B. COMMITMENTS

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. \$350 is payable in 2017 to fulfil contracts which have fixed and determinable amounts. For years 2017 through 2021, the Group has committed in principle to making an annual donation to a local charity. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. While the future payment is probable, no obligation has been recognised at the balance sheet date as the amount cannot be reliably determined in accordance with IAS 37 – *Provisions, contingent liabilities and contingent assets*.

C. CONTINGENCIES

The Group and its subsidiaries are from time to time subject to legal actions arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty and it is possible that an adverse resolution could have a material effect on the consolidated financial statements of the Group. However, based on information presently known, management does not expect that it is probable that the outcome of existing legal action, relating to an interpretation of contract terms, will have a material adverse effect on the consolidated financial position of the Group. Actual results could differ from management's best estimates.

Notes to Consolidated Financial Statements

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35. COMPARATIVE FIGURES

In 2016, the Group adopted a unified chart of accounts which has resulted in more consistent classifications of accounts across the Group. The result of the adoption of a unified chart of accounts is that certain 2015 balances previously reported were impacted by the new account classifications. The following is the effect to the comparative figures of the consolidated statements of financial position, income and cash flows.

Consolidated Statement of Financial Position

At 31 December 2015	As previously reported	Reclassifications	Reporting after reclassifications
Assets			
Cash	96,245	3,052	99,297
Fixed deposits	-	13,198	13,198
Regulatory deposits	19,439	(2,053)	17,386
Investments	650,980	(14,197)	636,783
Insurance receivables	79,946	(2,851)	77,095
Liabilities			
Other liabilities	72,451	(2,851)	69,600

Consolidated Statement of Income / Other Comprehensive Income

For the year ended 31 December 2015	As previously reported	Reclassifications	Reporting after reclassifications
Commission and acquisition expense	30,525	249	30,774
Operating expenses	62,889	(249)	62,640

Consolidated Statement of Cash Flows

For the year ended 31 December 2015	As previously reported	Reclassifications	Reporting after reclassifications
Net cash generated from operating activities	48,179	(11,145)	37,034
Net cash provided by investing activities	5,278	14,197	19,475

36. SUBSEQUENT EVENTS

On 24 March 2017, the Group declared a dividend to be paid to shareholders of record at 31 March 2017. The dividend will be paid on 13 April 2017. \$1,920 will be paid out in total, representing a \$0.22 per share dividend paid on 8,727,947 shares.

BF&M GENERAL INSURANCE COMPANY LIMITED

Directors	<p>Nancy L. Gosling, B.Comm., C.G.A. LL.D., Chairman Gregory D. Haycock, FCA., J.P., Deputy Chairman Gavin R. Arton L. Anthony Joaquin, FCA Catherine S. Lord, B.Sc., J.P. Paul C. J. Markey, Retired Chairman, Aon Bermuda R. John Wight, CPA, CA, CPCU Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer</p>
Officers	<p>R. John Wight, CPA, CA, CPCU, Group President and Chief Executive Officer Michael White, FIA, Group Chief Financial Officer Alissa Matthews, CPA, CA, Chief Financial Officer, P&C Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer, Senior Vice President Patrick Neal, B.A., CPCU, Senior Vice President, Business Development Heather A. Bisbee, CPA, CA, Head of Financial Reporting Lynda A. Davidson Leader, B.A., CPA, CA, Vice President, Corporate Services Andrew Hanwell, Vice President, Personal Insurance Gloria Legere, CPA, CMA, Vice President, Financial Controller Lorenzo Ratteray, Vice President, Claims</p>

BF&M LIFE INSURANCE COMPANY LIMITED

Directors	<p>Garry A. Madeiros, OBE, FCA., J.P., Chairman Stephen W. Kempe, Deputy Chairman Gavin R. Arton C.L.F. "Lee" Watchorn, FCIA, FSA R. John Wight, CPA, CA, CPCU</p>
Officers	<p>R. John Wight, CPA, CA, CPCU, Group President and Chief Executive Officer Michael White, FIA, Group Chief Financial Officer Andrew Soares, ALMI, ARe, CPCU, Senior Vice President Heather A. Bisbee, CPA, CA, Head of Financial Reporting Lynda A. Davidson Leader, B.A., CPA, CA, Vice President, Corporate Services Holly A. Flook, RN, BSN, Vice President, Health & Group Life Gloria Legere, CPA, CMA, Vice President, Financial Controller Dennis Marinac, FCIA, FSA, Vice President and Life Actuary Brian McLeod, Vice President, Operations Alyson L. Nicol, CPA, CA, Vice President, Retirement Benefits Jody Power, CPA, CA, CFA, Vice President Finance Felicia Rickards, Vice President, Client Relations and Service Delivery</p>

BF&M INVESTMENT SERVICES LIMITED

Directors	Stephen W. Kempe, Chairman Gavin R. Arton, Deputy Chairman R. John Wight, CPA, CA, CPCU Lynda A. Davidson Leader, B.A., CPA, CA
Officers	R. John Wight, CPA, CA, CPCU, Group President and Chief Executive Officer Miguel DaPonte, C.F.A., M.B.A., Senior Vice President Michael White, FIA, Group Chief Financial Officer Heather A. Bisbee, CPA, CA, Head of Financial Reporting

INSURANCE CORPORATION OF BARBADOS LIMITED

Directors	R. John Wight, CPA, CA, CPCU, Chairman Juanita Thorington-Powlett, M.B.A., F.C.I.S., Vice Chairman Goulbourne Alleyne, F.C.I.I., M.B.A., Deputy Chief Executive Officer Sir Paul Altman, G.C.M., BCH Sir Trevor Carmichael, Q. C. Jennifer Hunte, F.C.G.A., F.C.I.S. Eric Smith, Dip. (Mass Comm) Gordon Henderson, B.A. Econ (Summa Cum Laude), LL.B. (Hons.) Toni Jones, LL.B. (Hons.) C.L.F. “Lee” Watchorn, FCIA, FSA
Officers	Goulbourne Alleyne, F.C.I.I., M.B.A., Deputy Chief Executive Officer and Head of General Division Kamante Millar, CPA, CA, Chief Financial Officer Henry Inniss, M.B.A., L.L.I.F., Senior Vice President and Head of Life Division Valentina J.G.R. Blackman, LL.B. (Hons.), LL.M., Corporate Secretary Alex Tasker, Senior Vice President, Business Development and Marketing Glenda Gilkes, E. M. B. A., Senior Vice President, Human Resources and Customer Experience

ISLAND HERITAGE INSURANCE COMPANY LTD.

Directors	Gavin R. Arton, Chairman R. John Wight, CPA, CA, CPCU, Deputy Chairman Conor O’Dea, FCA C.L.F. “Lee” Watchorn, FCIA, FSA Gregory D. Haycock, FCA, J.P.
Officers	Jonathon Coleman, B.Sc. (Hons.), ACA, Chief Operating Officer Annette Jim, A.C.I.I., DipFM, Chief Underwriting Officer Alissa R. Matthews, CA, Chief Financial Officer

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SUBSIDIARY COMPANIES

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.3% ownership)
Insurance Corporation of Barbados Limited/
National Insurance Board Joint Venture (37.2% ownership)
Island Heritage Insurance Company Ltd.
BF&M Investment Services Limited
BF&M (Canada) Limited
BF&M Properties Limited
Barr's Bay Properties Limited (60% ownership)
Hamilton Reinsurance Company Limited
Scarborough Property Holdings Limited (60% ownership)
Hamilton Financial Limited
Kitson Insurance Services Ltd.
Island Heritage Insurance Company N.V.
Lawrence Boulevard Holdings Ltd.





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