



Financial Condition Report

2019 Year-End

BF&M Limited

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Executive Summary and Declaration

BF&M Limited (“the BF&M Group” or “the Group”) is presenting a Financial Condition Report (“FCR”), based on the position as at 31 December, 2019.

This Group FCR encompasses information in relation to all BMA insurance regulated entities within the Group which are required to submit an FCR under current Bermuda regulatory guidelines. No separate FCR has been prepared for BF&M Life Insurance Company Limited and BF&M General Insurance Company Limited as these entities are included in the scope of this report. Separate legal entity information has been disclosed for these entities where appropriate. Where separate legal entity information has not been provided, the Group level disclosure is also applicable for the legal entity.

Our mission at the BF&M Group is 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.

We at BF&M believe that nimbleness and readiness for change are essential qualities of being a leading insurer. We adopted a rigorous approach to examining our processes, policies and procedures. This included developing and promoting our internal talent, as well as strategically recruiting talent to implement effective and appropriate change.

The BF&M group of companies achieved strong returns in 2019, a year that was tumultuous in many ways. Shareholders’ net earnings were \$11.9 million and return on Shareholders’ Equity was 4.3%, despite weathering two major hurricanes – Dorian in the Caribbean and Humberto in Bermuda. We also tackled major regulatory, legislative and operational reform imposed on our industry as a whole.

The BF&M Group remains very well capitalised and Shareholders’ Equity at 31st December 2019 was \$281 million. The fundamentals of the BF&M Group business are sound. We are building the economies of scale required to sustain our track record of success.

Declaration on the Financial Condition Report

To the best of our knowledge and belief, the Financial Condition Report fairly represents the financial condition of BF&M Limited, BF&M Life Insurance Company Limited and BF&M General Insurance Company Limited in all material respects as at 31 December 2019.



R. John Wight, FCPA, FCA, CPCU
Group Chairman and Chief Executive Officer



Lily Chen, CPA, CA
Group Chief Financial Officer

1. Business and Performance

A-E. Group overview

BF&M Limited (the “Group”) was incorporated in Bermuda on 5th August 1991, as a holding company, and is a public limited company, listed on the Bermuda Stock Exchange.

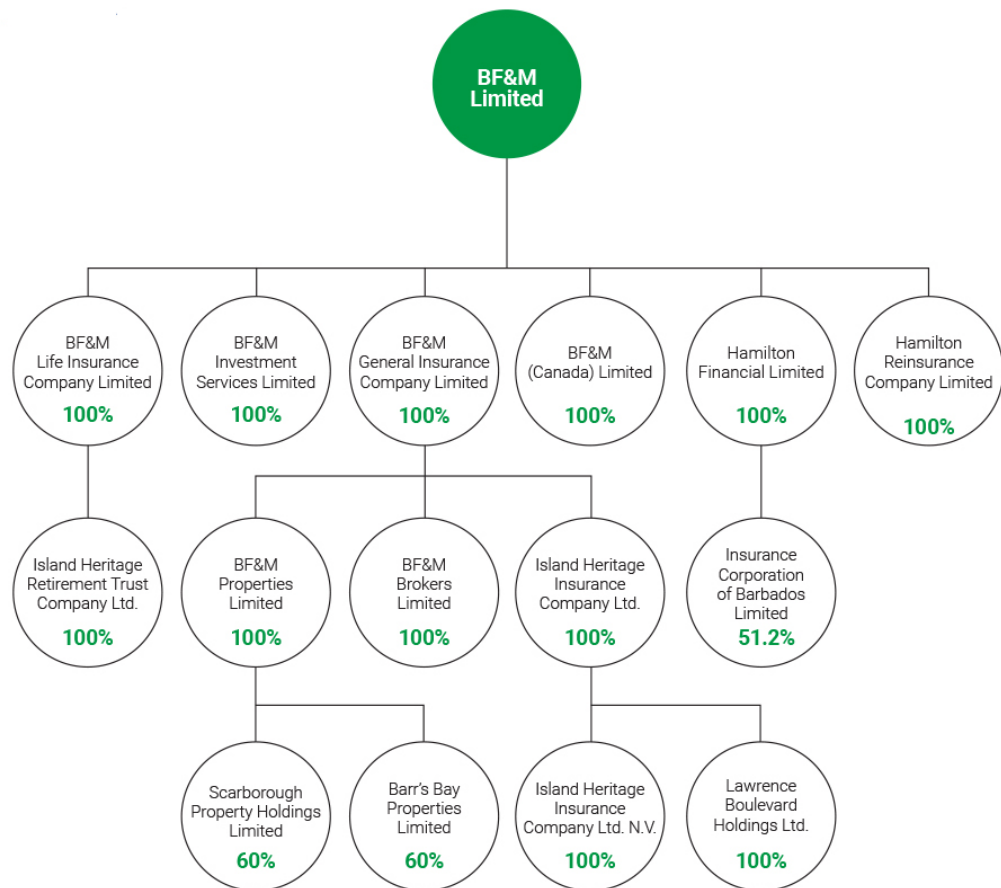
The Group’s principal business is insurance. It determines and charges a premium to policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the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

This FCR is prepared on a Group basis and provides additional specific disclosure related to the following entities:

- BF&M General Insurance Company Limited (“BF&M General”)
- BF&M Life Insurance Company Limited (“BF&M Life”)

The group structure as at 31 December 2019 is shown below:



BF&M General and BF&M Life are both 100% owned by the Group and are the only Bermuda-insurance licensed subsidiaries which fall within the scope of this report.

BF&M General has several subsidiaries including Island Heritage Insurance Company Ltd. ("IHC"), an insurance company which is based in the Cayman Islands. Numerical information related to BF&M General is presented on a consolidated basis within this FCR.

The following table provides additional details with respect to Bermuda insurance licenses held, country of operation and approved auditor for each entity:

Licensed Entity Name	Insurance License Class	Principal Country of Operation and Incorporation	Auditor
BF&M Group	Group	Bermuda	PwC
BF&M General	Class 3A	Bermuda	PwC
BF&M Life	Class 3B Long Term Class D	Bermuda	PwC

Group supervisor

The supervisor of the Group and individual entities listed in the table above is:

Bermuda Monetary Authority
 BMA House
 43 Victoria Street
 Hamilton Bermuda

Name and contact details of the approved Group and individual entities auditor

PricewaterhouseCoopers Ltd.
 16 Church Street
 Hamilton
 Bermuda

F. Insurance business written

The BF&M Group writes a diverse range of insurance business. In addition to BF&M General and BF&M Life, the Group contains entities registered outside of Bermuda writing insurance business, which have not been reported on an individual basis within this report as they fall outside the scope of this FCR.

Gross premiums written for the year ended 31 December 2019, as reported under IFRS, are listed on the following page. Premiums written for other Group entities which fall outside the scope of this FCR have not been listed individually.

\$'000	BF&M Group		BF&M General		BF&M Life	
	2019	2018 (restated)*	2019	2018	2019	2018
Gross written premiums	331,712	296,420	209,542	171,217	123,923	127,081
Net written premiums	157,002	154,235	41,250	36,173	117,239	119,643

* In 2019, the BF&M Group committed to a plan to dispose of its Barbados operation ("ICBL"). Under International Financial Reporting Standards (IFRS) the comparative items on the consolidated statement of income are restated to reflect the results of discontinued operations separately from continuing operations.

BF&M Group				
\$'000	2019		2018	
	Gross written premiums	Net written premiums	(restated)* Gross written premiums	(restated)* Net written premiums
Caribbean	155,595	31,366	115,204	24,101
Bermuda	176,117	125,636	181,216	130,134
Total	331,712	157,002	296,420	154,235

* In 2019, the BF&M Group committed to a plan to dispose of its Barbados operation ("ICBL"). Under International Financial Reporting Standards (IFRS) the comparative items on the consolidated statement of income are restated to reflect the results of discontinued operations separately from continuing operations.

I. BF&M General

BF&M General writes property and casualty business. Lines insured include personal and commercial fire, windstorm, burglary, public liability, marine, special types, personal automobile, personal auto-cycle, workers' compensation and commercial vehicles.

In terms of property and casualty business written, the aggregate sum insureds in Bermuda and the Caribbean grew year over year. As the business continues to grow, 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.

Gross premiums written by line of business and by geographical region for the year ended 31 December 2019 are as follows:

BF&M General				
\$'000	2019		2018	
	Gross written premiums	Net written premiums	Gross written premiums	Net written premiums
Property	180,543	17,817	145,108	15,017
Casualty	7,421	5,160	4,665	3,348
Motor	17,543	16,003	17,468	15,337
Marine	4,035	2,270	3,976	2,471
Total	209,542	41,250	171,217	36,173

BF&M General				
\$'000	2019	2019	2018	2018
	Gross written premiums	Net written premiums	Gross written premiums	Net written premiums
Caribbean	149,537	25,318	109,940	18,852
Bermuda	60,005	15,932	61,277	17,321
Total	209,542	41,250	171,217	36,173

II. BF&M Life

BF&M Life writes business on both a group and individual basis. Lines include health and accident, life, and disability. BF&M Life also sells annuity and pension products.

Gross premiums written per line of business and per geographical region for the year ended 31 December 2019 are as follows:

BF&M Life				
\$'000	2019	2019	2018	2018
	Gross written premiums	Net written premiums	Gross written premiums	Net written premiums
Life	26,071	22,329	23,511	18,958
Health	97,852	94,910	103,570	100,685
Total	123,923	117,239	127,081	119,643

BF&M Life				
\$'000	2019	2019	2018	2018
	Gross written premiums	Net written premiums	Gross written premiums	Net written premiums
Caribbean	6,324	6,048	5,630	5,319
Bermuda	117,599	111,191	121,451	114,324
Total	123,923	117,239	127,081	119,643

G. Investment performance

The Group holds 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 Directors' 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 issuer, sector, asset class or credit rating, unless required by local law or regulation. Exception reporting at the Investment Committee level occurs on a quarterly basis where investment ratings fall below investment grade. This reporting is also made at the Finance Committee level.

During fiscal year 2019, falling interest rates resulted in fair value gains being reported for the Group's fixed income securities. The Group works to mitigate volatility from year to year by following a disciplined asset liability matching policy for its long-term business so that increases (or decreases) in the fair value of the majority of its fixed income investments are matched with corresponding increases (decreases) in insurance reserves, reducing the net effect on earnings in a year.

Developed equity markets were also positive in 2019 which resulted in fair value gains recognised on the Group's equity and funds' portfolios. Impairment losses of \$5 million relating to mortgages and foreclosed properties were recorded as a result of a reduction in value of supporting collateral.

The table below provides a selected breakdown of the investment portfolio by asset class:

	BF&M Group			BF&M General			BF&M Life		
2019 \$'000	Balance \$	Return \$	Return %	Balance \$	Return \$	Return %	Balance \$	Return \$	Return %
Fixed income	530,861	14,488	2.73%	30,707	566	1.84%	500,156	14,010	2.80%
Mortgages/other	39,795	3,519	8.84%	–	210		39,795	3,309	8.31%
Equities and Funds	55,711	802	1.44%	31,975	481	1.51%	17,747	320	1.81%
Policy loans/other interests	3,780	2,021		–	1,505		3,780	643	
Total	630,147	20,830	3.31%	62,682	2,762	4.41%	561,478	18,282	3.26%
Fair value gains (losses)		37,729			5,265			31,985	
Impairments		(4,972)			–			(4,972)	
Allocations		(2,869)			–			(2,869)	
Total		50,718			8,027			42,426	

2018 \$'000	BF&M Group			BF&M General			BF&M Life		
	Balance \$	Return \$	Return %	Balance \$	Return \$	Return %	Balance \$	Return \$	Return %
Fixed income	530,300	16,081	3.03%	19,255	411	2.14%	455,550	11,753	2.58%
Mortgages/other	61,313	4,290	7.00%	8,318	649	7.81%	46,656	3,298	7.07%
Equities and Funds	38,428	818	2.13%	13,316	340	2.56%	14,719	285	1.94%
Policy loans/other interests	3,539	982	27.74%	–	789		3,539	362	10.22%
Total	633,580	22,171	3.50%	40,889	2,189	5.35%	520,464	15,698	3.02%
Fair value gains (losses)		(22,970)			(1,056)			(14,949)	
Impairments		(2,834)			–			(1,904)	
Allocations		(4,239)			–			(2,197)	
Total		(7,872)			1,133			(3,352)	
Total (restated)*		(2,318)			n/a			n/a	

* In 2019, the BF&M Group committed to a plan to dispose of its Barbados operation ("ICBL"). Under International Financial Reporting Standards (IFRS) the comparative items on the consolidated statement of income are restated to reflect the results of discontinued operations separately from continuing operations.

H. Other material information

Entity	A.M. Best's Rating	Rating Year
BF&M General	"A" Excellent	2019
BF&M Life	"A" Excellent	2019

IHIC, BF&M General's insurance subsidiary, also received an "A" Excellent rating in 2019.

A.M. Best's opinions are derived from an evaluation of a company's balance sheet strength, operating performance and business profile. Their rating system is designed to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders.

2. Governance Structure

The BF&M Group has established a robust governance structure, which forms an integral part of the Group's comprehensive risk management framework and is designed to effectively mitigate reasonably foreseeable material risks. It has been created proportionately, to reflect the nature, scale and complexity of the Group's operations. The Board has ultimate responsibility for maintaining the quality of governance.

The Group has an established risk management function with Terms of Reference for the Board of Directors (“the Board”), its committees and associated Executive Management Committees. This is supplemented with an organisational structure which contains documented delegated authorities and responsibilities. This facilitates the flow of decision making through the Board of Directors, Executive Management Committee and Senior Management.

Each principal subsidiary has a separate Board of Directors responsible for the governance of the individual entity.

Further details to explain the Group’s approach to governance is provided in the following sections for the Group as well as for BF&M General and BF&M Life.

A. Board and Senior Executives

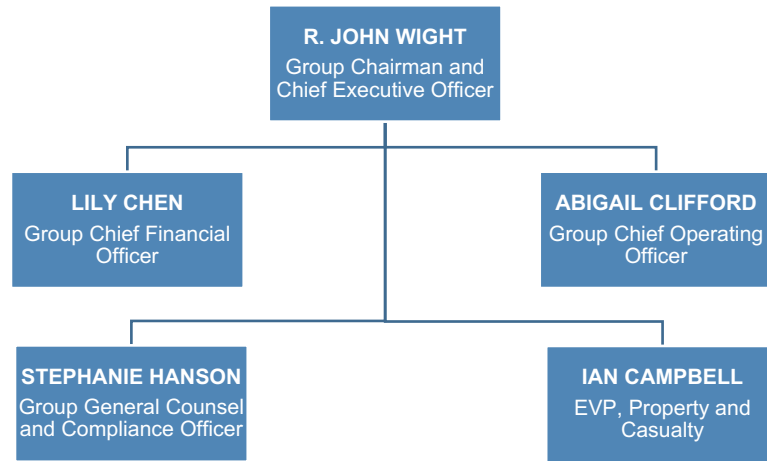
I. Board and Senior Executive team

The ultimate responsibility for sound and prudent management of the Group rests with its Board of Directors, which meets at least four times a year. All Board of Directors meetings follow a formal agenda and the proceedings are minuted. Terms of Reference for the Group Board of Directors are in place and are subject to review on an annual basis. A similar structure is in place for both BF&M General and BF&M Life, who meet at least three times a year.

The BF&M Limited Group Board currently comprises of 9 Directors, of which 8 are Non-Executive Directors. BF&M Life Insurance Company Limited has 6 Directors, of which 4 are Non-Executive Directors. BF&M General has 7 Directors, of which 4 are Non-Executive. The Directors for each entity in scope of this FCR are listed below:

Name	BF&M Group	BF&M General	BF&M Life
R. John Wight	•	•	•
Paul C. J. Markey	•	•	
Gordon J. Henderson	•		•
L. Anthony Joaquin	•		•
Nancy L. Gosling	•	•	
Christopher L. Harris	•	•	
Conor O’Dea	•		•
Andrew Lo	•	•	
Jennifer Reynolds	•		•
Abigail Clifford		•	•
Ian Campbell		•	

The organisation chart below shows the structure of the BF&M Group Executive Committee as at 31 December 2019.



Further details of the experience of key Board members and Senior Executives are provided in section 2 B.

Decision making and segregation of responsibilities

John Wight participates as a Director on each subsidiary Board and the Group CFO attends all Board meetings. This helps to ensure that significant issues and events noted at the subsidiary level are escalated and communicated to Group Management on a timely basis.

The Chairman of the Board is responsible for ensuring that the Board and Management interact effectively. The Deputy Chairman works closely with the Chairman and CEO by providing him support and advice. The Chairman and CEO meets regularly with the Deputy Chairman of the Board to provide updates and information.

Role of the Board

The Board of Directors provides oversight over all of BF&M Limited subsidiaries to ensure that the risk management, compliance and internal control framework is embedded across the Group and that business is conducted in a way that protects the BF&M brand and its capital adequacy and requires compliance with all relevant laws and regulations. The Board is accountable for the long-term success of the company by setting the Group's strategic objectives and monitoring performance against those objectives. In addition, the Group Board of Directors is responsible for setting appropriate strategies and policies, and for providing authority over the Group's risk management and internal controls framework.

Members of the BF&M Limited board also sit across all subsidiary boards. This provides the ability to escalate reporting up to the full board as needed. Issues relating to subsidiary companies that are impactful for the group are typically escalated for review by the full board of BF&M Limited.

In order to facilitate the Board's role, Committees have been established to:

- Oversee key operational areas including underwriting and investments;
- Review and approve significant policies and procedures; and

- Review compliance with all relevant laws, regulations, code of conduct, industry standards and guidance notes.

In addition, the Executive Committee supports the Board by:

- Managing and executing the day-to-day operations, subject to the mandate established by the Board of Directors and laws and regulations in Bermuda and other relevant jurisdictions;
- Developing and implementing an appropriate control environment including those around reporting systems;
- Providing recommendations on strategic plans, objectives, key policies, and procedures to the Board of Directors for evaluation and authorisation; and
- Ensuring that the Board of Directors has accurate and timely information, allowing the Board of Directors to conduct robust and candid discussions on operational performance, strategy, major policies, and to appraise the performance of Management.

Committee structure

Key committees are in place to support the Board of Directors in discharging its responsibilities. Each committee has its own Terms of Reference, which clearly sets out the objectives, authority, composition, organisation, roles and responsibilities of that committee.

There is directorship presence from the Group within each of these committees to facilitate effective communication and consistency. Each of the following key committees are established at the Group level and oversee activities for BF&M General and BF&M Life. Group committees provide oversight over subsidiaries and support the subsidiaries' Boards in carrying out their duties. These committees include:

– **Group Audit, Compliance and Corporate Risk Management Committee**
(“Audit Committee”)

The Audit committee reports to the Board on, among other things, the reasonableness of the financial reporting process, the effectiveness of the internal control structure and management of enterprise risks. In addition, it oversees the selection, oversight and remuneration of internal and external auditors and adherence by the BF&M Group to all applicable laws and regulations (including BSX listing regulations). This committee receives a quarterly report from the Group Risk Committee as well as the Internal Audit and Legal and Compliance function. The Audit Committee has the opportunity to hold in-camera sessions with members of the Executive and Internal and External Audit following each meeting.

The Audit Committee meets not less than four times a year and consists of at least four external independent directors. It is required to report to the BF&M Limited Board on its activities and make recommendations on its findings.

– **Group Finance, Compensation and Corporate Governance Committee**
(“Finance Committee”)

The Finance Committee reports to the Board on the financial performance and alignment of strategic planning and objectives of the Company, as well as ensuring adherence by the BF&M Group to its Bye-Laws and Investment Guidelines. The Finance Committee assesses the adequacy of the strategic planning process, approves the budget, reviews, considers and approves compensation policies and sets financial performance targets. In addition, this committee is charged with ensuring the Board is aware of matters which may significantly impact the financial condition or affairs of the BF&M Group or its subsidiaries.

The Finance Committee meets not less than four times a year and consists of at least four financially literate independent directors. It is required to report to the BF&M Limited Board on its activities and make recommendations on its findings.

The Finance Committee is supported by the Investment Committee, which is led by the Chief Financial Officer and comprises of members of senior management. This committee has overall responsibility for the operation and administration of investments by the BF&M Group. The investment committee reports

on a quarterly basis to the Finance Committee to ensure that the Finance Committee is aware of matters which may significantly impact the financial condition or affairs of the BF&M Group.

The Investment Committee guidelines ensure that there is an appropriate level of Board contribution to, and oversight of, key decisions, and that the day-to-day business is managed effectively. The Investment Committee consists of a clearly defined schedule of matters reserved for the Finance Committee and matters that the Investment Committee is able to manage. The types of matters reserved for the Finance Committee and/or the Board of BF&M Limited include, amongst other things, approval of investment guidelines, matters relating to the group's strategic plan, material transactions, risk appetite, and oversight of systems of internal control and corporate governance policies.

Succession planning

Succession planning is part of the strategy of Group Human Resources and is a comprehensive succession review conducted annually by the CEO and the Group Chief Operating Officer with reporting to the Group Finance Committee. This includes a plan for the CEO and Senior Management succession, as well as contingency CEO planning. Succession planning may be reviewed by the Board more frequently than annually as deemed appropriate.

Directors are elected or appointed for a full three-year term as detailed in the Company's Bye-Laws. Predefined age and term limits are established in the BF&M Limited Terms of Reference and Directors are expected to retire at the first opportunity for retirement following their 72nd birthday.

II. A description of remuneration policy and practices and performance-based criteria governing the parent Board, Senior Executives and employees

The CEO, Executive Committee and senior management manage employee compensation at the operational level.

Board remuneration

All members receive an annual retainer which is paid 50% in BF&M shares and 50% in cash.

Board performance assessment

Annually, Board members are required to complete two evaluations. One is a self-evaluation on individual performance and another is based on an assessment of the overall Board's performance. Results are compiled and distributed to the Chairman and CEO for review and follow-up discussion.

The self-evaluation assessment reviews commitment, independence, knowledge and skills and relationship and communications. The Board assessment reviews governance, composition, performance, information and several open-ended succession and strategy questions.

Remuneration Policy Statement

The Group provides compensation vehicles to motivate and reward contribution and behaviours of employees to ensure the long-term success of BF&M. The compensation programme objectives include the ability to attract and retain a talented team of individuals, to align pay with the Group's performance and individual contributions and to ensure alignment with our rewards philosophy across the organisation.

Compensation includes both fixed and variable components. Base salaries are maintained at competitive levels with the local marketplace and are reviewed annually to ensure alignment with market movements, job scope, responsibilities, roles, experiences, skills and knowledge. The variable annual cash bonus is a discretionary, variable performance-based programme designed to tie Group financial performance and individual and team performance. Additionally, the Group's long-term deferred compensation programme is designed to align the interests of our senior leadership to that of our key stakeholders. The target equity award is based on level within the organisation and the size of the equity award is based on

actual financial results. Comprehensive compensation reviews are conducted by the Human Resources function annually.

The Finance Committee approves all compensation-related financial targets in the prior performance year. Bonus and equity payouts are based on actual Group performance results approved by the Finance Committee which are based on the audited financial results. Additionally, general review of the Group's approach to compensation and specific ad hoc compensation reports by the BF&M Limited Board of Directors with details are provided periodically and as requested.

III. A description of the supplementary pension or early retirement schemes for members of the insurance group, the Board and Senior Executives

The Finance Committee reviews and approves changes to the administration of the Defined Benefit and Defined Contribution pension schemes.

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 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 lays 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.

IV. Any material transactions with shareholder controllers, persons who exercise significant influence, the parent Board or Senior Executives

The Group has a significant shareholder, Lawrie (Bermuda) Ltd, incorporated in Bermuda, which as at 31 December 2019 owned 38% of BF&M Limited's shares. The remaining shares are widely held.

The Group defines key Management as the Executive Committee and the Board of Directors. The following transactions were carried out with key Management (and their family) during the year ending 31 December 2019.

	BF&M Group	BF&M General	BF&M Life
2019			\$'000
Sales of insurance contracts and pension services	194	136	58
Purchase of services	–	–	–
Loans to key management as at 31 December 2019	316	–	316

	BF&M Group	BF&M General	BF&M Life
2018			\$'000
Sales of insurance contracts and pension services	216	151	65
Purchase of services	–	–	–
Loans to key management as at 31 December 2018	327	–	327

During the financial year ending 31 December 2019, BF&M Limited declared and paid \$8.3 million (2018 - \$7.8 million) of dividends to shareholders.

B. Fitness and proprietary requirements

I. A description of the fit and proper process in assessing the parent Board and Senior Executives

Fit and proper requirements are assessed based on the following definitions:

- **Fit:** Professional qualifications, knowledge and experience are adequate to enable sound and prudent management of the Company's activities. An assessment of whether an individual is 'Fit' shall involve an evaluation of the person's professional qualifications, knowledge and experience to ensure they are appropriate to the role. It shall also demonstrate whether the person has exercised due skill, care, diligence, integrity and compliance with relevant standards that apply to the area or sector in which the individual has worked.
- **Proper:** a person is of good repute and integrity. An assessment of whether a person is 'Proper' shall include an evaluation of a person's honesty, reputation and financial soundness. This will include, if relevant, criminal convictions or disciplinary offences.

The Chairman of the Board is responsible for reviewing with the Board of Directors on an annual basis the appropriate skills and characteristics required of Directors in the context of the current make-up of the Board. This assessment includes issues of diversity, age and skills all in the context of the perceived needs of the Board at that point in time. Annually, the Secretary shall distribute an evaluation form to each Board member seeking feedback on Board meetings, relationships and communication. The Secretary shall collate the responses and forward to the Chairman of the Board who will be responsible for ensuring that appropriate feedback is provided to all Board members. A self-evaluation is also completed by directors which reviews their own personal contribution to the Board.

II. Professional qualifications, skills, and expertise of the Board and Senior Executives

Summary of the Board nomination process

The nomination and selection process of new directors is outlined in the Finance Committee Terms of Reference. The Finance Committee is responsible for establishing the selection criteria to reflect the needs and experiences required for the business and organisation. This skills matrix forms the basis to assess and document the qualifications, knowledge, skill and experience required for Board membership.

In addition to a comprehensive review of qualifications, experience, capability, availability to serve, competencies and skills, a complete due diligence exercise is conducted with a review of any conflicts of interest. Selected nominees for Board approval are then presented for shareholder approval at the Annual General Meeting.

Executive Committee selection process

The Group Chairman and CEO is responsible for hiring the Executive Committee members. This process follows a disciplined assessment and interviewing process and may involve guidance and input from a third-party recruitment agency. Candidates are fully vetted and may include interviews with other Executive Committee members and potentially members of the BF&M Limited Board of Directors to ensure culture and organisational alignment. All candidates complete a comprehensive background and reference check.

Non-Executive Committee selection process

Management is expected to identify and select the best candidate within their teams to ensure there is appropriate talent, expertise and skills in their areas of responsibility. Human Resources provide management support through a comprehensive selection and hiring process which includes background and reference checks.

Directors and key Senior Managers along with their relevant experience, qualifications and skills are set out below:

Executive Committee

– **R. John Wight, FCPA, FCA, CPCU**

Group Chairman and Chief Executive Officer

John Wight has over 35 years of experience in the financial services sector in Canada and Bermuda. Joining BF&M in 1992, he held the position of Executive Vice President and Chief Financial Officer and then succeeding to President and CEO in 2005. John started his professional career with Ernst & Young in Montreal before transferring to Coopers & Lybrand (now PwC), in Bermuda.

He has a Bachelor's Degree in Commerce, with a major in Accounting from Concordia University in Montreal, Canada. He holds professional designations as a Chartered Professional Accountant and a Chartered Property Casualty Underwriter.

John is a Council Member of the Bermuda Stock Exchange and a member of the Ministry of Finance Insurance Advisory Committee. He is Chairman of Bermuda Container Lines and a Board member of HSBC Bank, Bermuda amongst several other companies. He is also a past President of the Bermuda Chamber of Commerce, past Chairman of CPA Bermuda and a past President of the Bermuda Insurance Institute.

– **Lily Chen, CA**

Group Chief Financial Officer

Lily Chen is a qualified accountant with over 20 years' experience in the financial services industry. Lily joined BF&M in 2019 as Group Chief Financial Officer. She most recently worked at Berkshire Hathaway Group, Reinsurance Division for three years as a Divisional Chief Financial Officer and Divisional Administrative Officer. In this role she was responsible for the strategic plan and direction for the Reinsurance Division's finance function and all financial reporting, regulatory reporting and tax for four jurisdictions including U.S., Canada, Europe and the Caribbean. Prior to Berkshire Hathaway, Lily held senior positions with Aviva Canada, ING Insurance and Marsh Management Services.

Lily is a graduate of the University of Calgary with a Bachelor of Commerce in Accounting and a Chartered Accountant.

– **Abigail Clifford**

Group Chief Operating Officer

Abigail Clifford has over 15 years of experience in the financial services sector including the international reinsurance industry with expertise in the areas of organisational and talent development. Abigail joined BF&M in 2013 and is the Group Chief Operating Officer with leadership responsibility for Legal & Compliance and is the interim Executive for the Life and Health divisions. Prior to joining BF&M, Abigail worked at PartnerRe as the Group Chief Human Resources Officer.

Abigail holds a Master's of Science in Organisational Development from John Hopkins University and a Bachelor of Arts in Psychology from Washington College. Additionally, she holds professional certifications both in coaching and the human resources arenas.

– **Stephanie A. Hanson**

Group General Counsel and Group Compliance Officer

Stephanie Hanson is a barrister and attorney with over 13 years of legal experience which includes direct industry experience within two international insurance companies. Stephanie joined the BF&M Group in September 2017 as Group General Counsel and Group Compliance Officer with oversight of the legal, compliance and corporate secretarial function across the group. Prior to BF&M, Stephanie worked at a leading offshore firm. She trained and qualified at DAC Beachcroft LLP in the UK which is internationally renowned for its insurance expertise.

Stephanie holds a Bachelor of Laws degree from The University of Cardiff and is a Member of the Bermuda Bar.

– **Ian G. Campbell, ACA**

Executive Vice President, Property and Casualty Insurance

Ian Campbell is a financial services professional with over 20 years of experience in the industry including within international insurance and reinsurance, broking and investment management. He has held multiple directorships of regulated insurance and reinsurance entities in the UK, Europe, USA, Bermuda, Australia and New Zealand. Ian joined the BF&M Group in September 2018 as Executive Vice President of the property and casualty operations of the Group. Prior to BF&M he was Group Chief Financial Officer of Ecclesiastical Insurance Group.

Ian holds a Bachelor of Science degree from The University of Hull and is a Member of the Institute of Chartered Accountants in England and Wales.

BF&M Limited – Board of Directors

The BF&M Limited Board of Directors is comprised of both Bermudian and non-Bermudian individuals who bring a wealth of local and international business experience. Their reputation and experience reflect the Company's corporate values of integrity and professionalism. The composition reflects a blend of financial, insurance and business knowledge. A list of the parent company Directors is provided below with a brief professional resume on each.

– **R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer**

(As on page 14)

– **L. Anthony Joaquin, FCA – Deputy Chairman, Retired Managing Partner, Ernst & Young**

Mr. Joaquin has been a member of the BF&M Limited Board of Directors for 11 years, as well as the Board of BF&M General Company. Mr. Joaquin spent seventeen years as a partner of Ernst & Young (now EY), and held several different roles in the insurance area of the practice prior to his retirement. He serves on several boards and is currently the Chairman of HSBC Bank, Bermuda and a Director of Ascendant Group Limited.

– **Nancy L. Gosling – President and CEO, Goslings Brothers Ltd.**

Ms. Gosling has been a member of the BF&M Limited Board of Directors for 20 years and is the Chairman of the BF&M General Board. Ms. Gosling is the President and CEO of Goslings Ltd., and she also holds a Bachelor's degree in Commerce and an Honorary Doctorate (Laws) from Dalhousie University in Halifax, Canada. She brings in-depth understanding of the Bermuda business community including financial knowledge and experience.

– **Gregory D. Haycock – Retired Senior Partner, KPMG**

Mr. Haycock has been a member of the BF&M Limited Board of Directors for 11 years and serves on the BF&M General and the Island Heritage Insurance Company Ltd. Boards. Mr. Haycock joined KPMG as a partner in 1985 and retired in 2006. He is currently the Corporate Director of Lawrie International Limited

and Chairman of Lawrie (Bermuda), BF&M's largest shareholder. He serves a number of other local Boards, and brings a wealth of local and international knowledge in the financial and insurance arenas. Mr. Haycock retired as Director of the Group in June 2020.

- **Gordon J. Henderson – Retired President and CEO, BMO Life Insurance Company**
Mr. Henderson has been a member of the BF&M Limited Board of Directors since 2017 and is Chairman of the BF&M Life Insurance Company Limited Board. Mr. Henderson was a senior executive of BMO Bank of Montreal for 12 years where his roles included President and CEO of BMO Life Insurance Company and Deputy Chairman of BMO Reinsurance Limited. Before joining BMO, Mr. Henderson was with Aetna Canada for 17 years and held a number of senior executive roles including SVP Individual Insurance and SVP & General Counsel. He has served on many boards in the financial services industry in Canada, Bermuda and Barbados and is a Member of the Law Society of Ontario.
- **Catherine S. Lord – Retired**
Mrs. Lord has been a member of the BF&M Limited Board of Directors for 10 years and serves on the BF&M General Board. Mrs. Lord is a retired executive from J&H/Marsh & McLennan, with extensive experience in the insurance and international reinsurance markets. She also brings in-depth understanding of the Bermuda business community and serves on a number of Bermuda Government boards. Mrs. Lord retired as Director of the Group in June 2020.
- **Richard D. Spurling – Retired Partner, Appleby, Barristers & Attorneys**
Mr. Spurling has been a member of the BF&M Limited Board of Directors for 27 years. He is the Chairman of the Finance, Compensation and Corporate Governance Committee and serves on a number of BF&M subsidiary Boards. Mr. Spurling was employed by Appleby for over 28 years, becoming a partner in 1978 and a Senior Partner in 2003 before retiring in 2005. He has a commitment to many local Boards, covering a large spectrum of Bermuda businesses. Mr. Spurling retired as Director of the Group in June 2020.
- **Paul C. J. Markey – Retired Chairman, Aon Bermuda**
Mr. Markey has been a member of the BF&M Limited Board of Directors for 2 years and serves on the BF&M General Board. Mr. Markey joined Aon Bermuda in 1994 and remained with the company for 25 years. Prior to joining Aon he spent 10 years with General Re in both the US and London. Mr. Markey's reinsurance experience and knowledge of the insurance industry provides valued insight for our Boards.
- **Christopher L. Harris – Retired CEO and President, Montpelier Re Holdings Ltd.**
Mr. Harris became a member of the BF&M Limited Board of Directors in 2018 and serves on the BF&M General Board. Mr. Harris served as CEO and President and board member of Montpelier Re Holdings Ltd. Prior to his CEO role at Montpelier he was Chief Underwriting Officer, Chief Risk Officer, and Chief Actuary at the company. Mr. Harris is a Fellow of the Casualty Actuarial Society, Chartered Financial Analyst, and Chartered Property and Casualty Underwriter.
- **Conor O'Dea, FCA – Chairman/Director, Butterfield Bank (Cayman) Ltd.**
Mr. O'Dea became a member of the BF&M Limited Board of Directors in 2018 and serves on the BF&M General Board. Mr. O'Dea is currently the Chairman of Butterfield Bank (Cayman) Ltd. and is a member of the BNTB Group board. Mr. O'Dea served as President and COO of Butterfield Bank (Cayman) Ltd. culminating 27 years at the bank. Prior to his President and COO role he was Managing Director and Senior Executive VP at the company. Mr. O'Dea is a Fellow of the Institute of Chartered Accountants in Ireland and a board member on several other companies.
- **Andrew Lo – President, Finaceit and Former CEO, Kanetix Ltd.**
Mr. Lo became a member of the BF&M Limited Board of Directors in 2020 and serves on the BF&M General Board. Mr. Lo has over 25 years of experience in FinTech, InsurTech and SaaS industries. Currently serving as President of Finaceit Canada and on the board of directors for Meridian Credit Union, Mr. Lo was formerly CEO of Kanetix Ltd. – Canada's largest digital acquisition platform for insurance and financial services. Prior to this role, Mr. Lo held senior leadership positions at Finastra, a global technology and business process outsourcing company, and Filogix Inc., a mortgage origination

platform. Mr. Lo is a Member of the Professional Engineers of Ontario as well as the Institute of Corporate Directors.

– **Jennifer Reynolds – President & CEO of Toronto Finance International (TFI)**

Mrs. Reynolds became a member of the BF&M Limited Board of Directors in 2020 and serves on the BF&M Life Board. Mrs. Reynolds has over 20 years of experience in financial services. Currently the President & CEO of TFI, a public-private partnership whose mission is to promote and develop Toronto's financial services sector, Mrs. Reynolds has previously held senior roles in investment banking, venture capital, and global risk management. Mrs. Reynolds is a Director on the boards of several organisations, including Citibank Canada and the Canada Development Investment Corporation. In 2015 and 2017, she was named a Top 100 Award Winner of Women's Executive Network Canada's Most Powerful Women.

The Directors for BF&M Life and BF&M General are as noted in Section 2.A.I above.

C. Risk management and solvency self-assessment

I. Risk management process and procedures

The Group is exposed to a spectrum of risks including insurance, market, credit, liquidity, and operational risks.

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. Management recognises the critical importance of having efficient and effective risk management systems in place. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures.

The formal risk management framework is designed to ensure that all significant risks are identified and managed. This framework seeks to manage exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board.

As part of the risk management framework, the Group identifies risk owners, mitigation plans and ranks the identified risks in the key risk list, which is updated and reported on a quarterly basis. This provides an informed basis for decision making. The Group Risk Committee, described in section 2. A. I., above, plays a key role in the risk management process. Stress and scenario testing and qualitative assessments are tools used to measure risk.

BF&M Group has a strong Enterprise Risk Management (ERM) framework. Along with the Group Solvency Self-Assessment ("GSSA"), this risk framework is implemented and integrated into the Group's operations through the systems, processes, procedures and controls developed by BF&M leadership including:

- Establishing a Group Risk Committee;
- Development of a Board approved capital management policy;
- Quarterly capital adequacy reporting;
- Capital stress testing;
- Quarterly risk stress tests;
- Key risk lists for each insurance entity including mitigations;
- A robust reinsurance programme.

On a quarterly basis, the Board reviews a Group Key Risk List. Details of the risk description, owner, probability, severity, mitigation and general comments are provided for each risk as well as the direction that the risk is trending. There is also a Key Risk List for each of BF&M Life and BF&M General.

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.

II. Integration between the risk management and solvency self-assessment systems

The BMA requires commercial insurers and Bermuda groups to perform an assessment of their own risk and solvency requirements for the benefit of policyholders and to enhance its insurer operations in the Bermuda market. For BF&M Life and BF&M General this is referred to as the Commercial Insurers' Solvency Self-Assessment ("CISSA"). For the Group it is referred to as the Group Solvency Self-Assessment ("GSSA").

Both the CISSA and GSSA form an integral part of the risk management process. They are prepared and reviewed annually and provide a comprehensive review of the approach taken to risk management. These assessments facilitate a holistic review of the risk universe, including tolerance and appetite setting, risk identification, measurement, management, mitigation and reporting. The CFO maintains responsibility for communicating the assessment contents and findings to the Board.

The above approaches support the organisational decision-making process and assist in ensuring risk management and solvency self-assessment are integrated, streamlined and cascaded across the Group.

III. Relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The Group Finance Committee approves a capital management policy that sets out supplemental internal capital targets to the BMA regulatory requirements. These capital requirements are reported on quarterly at the BF&M Limited Audit Committee meeting.

The capital management policy sets out the approach that the BF&M Group uses to manage balance sheet capital. It addresses the movement of capital around the Group together with the implications for dividend policy. The outputs are used to assist in guiding compliance with regulatory capital requirements, acceptable types of capital, required statutory reporting and governance.

The objectives for the BF&M Group capital management framework are to:

- Maintain regulatory solvency for all regulated entities;
- Maintain rating agency credit rating for entities as required by Group strategy;
- Support a stable dividend payout strategy and return funds to shareholders as appropriate;
- Retain sufficient capital for growth and investment in the business;
- As far as possible, maintain flexibility in movement of capital around the Group.

The Board of Directors reviews the available capital against these targets on a quarterly basis.

IV. Solvency self-assessment approval process

The GSSA report is compiled by the SVP Actuarial & Risk Management with contributions from the relevant functions throughout the Group. It is reviewed by the Group CEO and CFO and provided to the Board of Directors as part of the BSCR review process. CISSA reports for BF&M General and BF&M Life are prepared by the senior financial staff with review and contribution by the executives and senior staff of those companies.

D. Internal controls

I. Internal Control System

A robust internal control system is in place, which is enhanced with additional oversight by the Audit Committee.

The Audit Committee plays a key role in reviewing the effectiveness of the internal control systems by carrying out the following activities:

- Evaluating the manner in which Management ensures and monitors the adequacy of accounting and internal systems, paying particular attention to computer controls and security;
- Assessing Management's response to and implementation of internal control recommendations made by the Company's external and internal auditors.

In addition, the Board Terms of Reference assist in guiding the Boards' role in ensuring that an adequate system of internal control and reporting is maintained. Further, Management is responsible for designing and maintaining appropriate policies, internal controls and procedures to ensure compliance with accounting standards and applicable laws and regulations.

The importance of internal controls is emphasised throughout all processes and high levels of integrity are promoted at all levels of the Company, from Board to Senior Management and staff members as well as external parties (e.g. in outsourcing relationships).

Control procedures are embedded within business processes. While being aware and understanding the objective of the controls, professional duty and care must be exercised to ensure controls are performed according to their spirit.

Through the implementation of policies and procedures, employees across the Group have a clear view on their responsibilities throughout the business processes. A good understanding of roles and of the importance of the controls contributes to the embedding of a risk culture. Management ensures that the appropriate skill set and competencies are developed to support this objective (e.g. training).

II. Compliance Function

Responsibility to monitor and evaluate compliance with jurisdictional laws and regulations sits within the legal and compliance function of BF&M. The Group Board receives quarterly reports on legal and compliance matters impacting the group from the Group General Counsel and Group Compliance Officer.

All regulatory submissions to the BMA are managed between the Financial Reporting team and Compliance function. The Group Compliance Officer has ultimate oversight of all filings and communications with regulators and ensures timely and accurate information is submitted to the BMA, both with respect to the Group as well as each subsidiary.

Designated compliance officers are in place in each key jurisdiction driving the compliance strategy and monitoring for changes in local law and regulatory requirements.

E. Internal audit

Group Internal Audit is an independent function, guided by a philosophy of adding value to improve the operations of the Group and its subsidiaries. It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal controls.

The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority, and responsibility. This includes the nature of the Internal Audit functional reporting relationship with the Board and defines the scope of Internal Audit activities. Final approval of the annual Internal Audit Charter resides with the Audit Committee.

The Audit, Compliance and Corporate Risk Management Committee has the following responsibilities with respect to the Internal Audit function:

- Review and approve the appointment and dismissal of the Internal Audit function which reports administratively to the Chief Executive Officer;
- Review and approve the Charter of the Internal Audit function;
- Ensure that the senior Internal Audit executive/internal auditors have access to the Chairman of the Audit Committee;
- Review the qualifications, organisational structure and budget of the Internal Audit function;

- Discuss with Management the Internal Audit function responsibilities, activities, effectiveness and staffing and any recommended changes in the planned scope of the Internal Audit function;
- Review and approve the proposed annual Group Internal Audit Plan;
- Obtain periodic progress reports on the status of the plan, and summaries of any significant issues raised during the performance of internal audits, including the resolution of recommendations made concerning the Company's system of internal control.

F. Actuarial function

The actuarial function is composed of a combination of appropriately skilled and experienced internal and external (independent) actuarial professionals, with its overall responsibility residing with the Group's Chief Financial Officer. Responsibilities of the actuarial function include but are not limited to:

- Technical provisions: To set, monitor and adjust insurance reserves under IFRS and technical provisions under EBS – including premiums and loss and loss expense best estimates – risk margin, methodologies and underlying assumptions, for both the Board and Regulator while adhering to appropriate requirements.
- Risk management: Producing various aspects of GSSA and CISSA, in particular capital projections and stress testing.
- Oversight of pricing and reinsurance activities.
- Carry out investigations in relation to the claims experience and other assumptions impacting the Company.

To varying degrees, the duties and responsibilities outlined above are shared between both the internal and external actuarial resources.

The Group has two appointed external independent actuaries approved by the BMA and they are consistent across all of the Group's insurance entities. Opinions are provided separately on general business technical provisions and long-term technical provisions. All actuaries have direct access to the Group's Audit, Compliance and Corporate Risk Management Committee as well as the BF&M Limited, BF&M Life and BF&M General Board of Directors. An annual report on the reliability and adequacy of the calculation of the IFRS insurance reserves is provided to the Boards by the appointed actuaries.

G. Outsourcing

I. Outsourcing policy

The Group has an Outsourcing Policy ("Policy") which sets out key processes and procedures that the Group must apply in relation to the outsourcing of activities to third-party service providers, in line with relevant regulatory outsourcing guidance. It is supplemented by other overlapping policies concerning third-party risk. The Policy ensures that arrangements with outsourcing service providers are subject to appropriate due diligence, approval and ongoing monitoring.

All respective business units are responsible for determining when outsourcing arrangements are in place, and identifying new arrangements, in accordance with guidance and definitions as set out in the Policy. Senior management are responsible for determining when there is material outsourcing of critical business activities.

Key controls and governance

The Policy requires appropriate due diligence to be carried out on potential outsourcing providers. The due diligence process addresses material factors which would impact the outsourcing service provider's ability to perform the business activity.

The Policy requires all outsourcing to be contracted in a legally binding agreement and enforceable in all relevant jurisdictions. Similarly, intra-group arrangements must be documented in an outsourcing agreement. All material outsourcing must receive the prior approval of the Board of Directors.

Outsourcing arrangements and agreements are to be subject to ongoing management and monitoring and are to be reviewed annually by relevant business units. The management of outsourcing arrangements forms part of internal audits from time to time and as determined by the Audit Committee.

Ultimate responsibility for the outsourcing of the Group's business activity and compliance with all legal and prudential requirements is with senior management. Senior management are responsible for evaluating risks and materiality of existing and prospective arrangements.

The Board of Directors play a key role and amongst other oversight is responsible for annually reviewing and approving the Policy and the Group's material outsourcing log.

Overview of outsourced business activities

Some key business activities outsourced are as follows:

- Case and claims management of overseas health treatment and repricing services related to health insurance;
- Underwriting and risk assessment of individual and group life, disability and health policies;
- sale of certain health, life and property and casualty products in operating jurisdictions and loss adjudication for certain property and casualty claims

II. Material intra-group outsourcing

The Group centralises its reinsurance function to allow for oversight of Group reinsurance risk and to benefit from economies of scale on larger reinsurance spends.

H. Other material information

There is no other material information to report.

3. Risk Profile

The Group is exposed to a range of risks which have the potential to adversely affect its ability to achieve its business objectives.

Set out below we provide an overview of the key risks faced by the Group, together with a description of how each is managed.

A-B. Material risks to which the insurance Group is exposed during the reporting period and how they are mitigated

Key risks to the Group include the following:

Underwriting risk

Underwriting risk stems from inaccurate pricing of risks or inappropriate underwriting of risks. Overall, the Group seeks to be conservative in its acceptance of insurance risks by establishing strict underwriting criteria and limits. The underwriting policy for each business unit is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

I. Life and Health insurance

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

Life insurance risk approaches have been designed at a business unit level, with monitoring conducted by the individual business units and overseen by the Board. Mitigation methods include the purchase of reinsurance, an established underwriting process and monitoring of pricing and product design.

II. General insurance

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 (e.g. Catastrophe risk);
- 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. Similar to life insurance risk, general insurance risk is managed primarily at business unit level with oversight at a Group level.

Reinsurance, an established approach to pricing and underwriting and a robust risk management framework are examples of how these risks are mitigated.

Reinsurance and reinsurance credit risk

Reinsurance risk refers to the inability of the insurer to obtain insurance from a reinsurer at the right time at an appropriate cost. Reinsurance credit risk is the risk that the counterparty will develop solvency issues and become a slow payer or nonperforming.

Reinsurance risk across the Group is managed with an established renewal process. The extensive use of modeling techniques, with management challenge and oversight, together with regular monitoring of reinsurer credit ratings contribute to the reinsurance risk mitigation approach.

All major reinsurers are rated A- or better with A.M. Best or equivalent.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable or unwilling to meet an obligation, thereby causing a financial loss.

Policies and procedures are in place to manage this risk include 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. Portfolios are subject to stress testing and liquidity analysis.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risks, Management maintains levels of cash and short-term deposits which are sufficient to fulfill the Group's short-term obligations. The Group also closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities and pensions business.

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. For BF&M Group, market risk comprises three types of risk:

- Foreign exchange rates (currency risk);
- Market interest rates (interest rate risk); and
- Market prices (price risk).

The vast majority of the Group's investments are in quoted bonds, equities and first lien Bermuda mortgages. This reflects a conservative and cautious approach taken in order to mitigate market risk.

Operational risk

The Group is exposed to operational risk, which is the risk of loss arising from the failure of people, processes, technology, or from external events. The Group mitigates operational, strategic, reputational, and legal risks by maintaining a sound corporate governance framework, which is supplemented with a robust set of policies, manuals and guidelines. Further details surrounding the corporate governance and risk management framework can be seen in section 2.

C. Material risk concentrations

Material concentration risk may arise, for example, due to a geographic concentration of business, or due to a concentration of reinsurers. Material concentration of risks is mitigated with a strategic consideration of the diversification of products offered and by maintaining strong relationships.

D. Investment in assets in accordance with the prudent person principles of the Code of Conduct

The Group's investment strategy is conservative and prudent which ensures that exposure to the cycles of the markets is minimised. The Group's investment strategy follows a prudent person approach, aimed at balancing the objectives of capital preservation and reasonable return on investment, in the context of sound liquidity management and appropriate levels of asset concentrations.

Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single group, asset class or credit rating. These guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security. Exception reporting at the Investment Committee level occurs on a quarterly basis where investment ratings fall below investment grade. This reporting also made at the Finance Committee level.

In order to manage liquidity risks, Management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations.

Further details surrounding the investment approach and composition can be found in section 1 G and under the 'credit risk' subheading in section 3 A-B.

E. Stress testing and sensitivity analysis

The objective of stress testing and sensitivity analysis is to assess the capital adequacy of the Group under adverse financial and underwriting conditions. Risk stress tests are run on a quarterly basis and help determine the capacity of the Group to absorb the manifestation of key financial risks, such as shocks to investment performance and projected losses arising from specific underwriting risks.

In addition to the quarterly risk stress tests, the Group conducts annual scenario analysis exercises. For the life insurance business this takes the form of integrated scenarios that stress multiple risk factors simultaneously. The scenarios are chosen based on adverse, plausible events that could impact the

business lines written by the Group. The impacts of the scenarios are projected for several years into the future, to understand the impact on earnings and capital. For the property and casualty business, a very large number of scenarios are modelled drawn from industry databases of extreme events. These scenarios assist the Group in understanding the impact of events that could impact multiple islands where the Group does business, and ensure that the annual reinsurance program is consistent with the Group's risk appetite.

The Group's approach to stress and scenario testing is supported by robust guidelines. The scenarios used in modeling have been selected for their relevance to the Group, based on historical and prospective events, with relevant assumptions made specific to each scenario. The Group has limited residual exposure due to its robust reinsurance programme.

The capital and solvency implications of these scenarios in the context of the GSSA and regulatory requirements are determined by BF&M's Investment Committee and reviewed by BF&M Group Management. The results are incorporated into the capital, solvency and risk management approach and their impact included in the Group's annual BSCR submission. The outputs of the testing exercise are communicated to the Board of Directors and used to facilitate Senior Management's overview of firm-wide risks and stresses and to incorporate the implications of the scenario testing in the Group's strategy and business profile.

Based on the latest results, Senior Management believe that the Group, BF&M Life and BF&M General have sufficient capital and liquidity to comply with the contractual obligations of the organisation and regulatory requirements upon experiencing losses within its risk tolerance.

F. Any other material information

There is no other material information to report.

4. Solvency Valuation

A. Valuation bases, assumptions and methods used for each asset class

Financial statements for the BF&M Group, BF&M General and BF&M Life are compiled on a 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 at fair value through profit or loss. This is as required under International Financial Reporting Standards ("IFRS").

These financial statements form the basis for the preparation of both the Economic Balance Sheet ("EBS") and the Statutory Financial Statements ("SFS") as required under Bermuda insurance regulations. The EBS and SFS are used by both the Group and the Bermuda Monetary Authority in assessing the minimum solvency and capital requirements. With certain exceptions, assets and liabilities are assessed and included on the EBS at fair value. The valuation of technical provisions is noted below in 4B.

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 investments, including fixed income and equity, 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.

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.

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.

B. Valuation bases, assumptions and methods used for technical provisions and best estimate

Technical Provisions are determined in accordance with accepted actuarial practice and Economic Balance Sheet (“EBS”) valuation principles as outlined in the BMA’s Guidance Notes for Commercial Insurers and Insurance Groups’ Statutory Reporting Regime and Actuary’s Opinion on EBS Technical Provisions.

Risk margins have been calculated in accordance with the requirements of Schedule XIV of the Insurance Prudential Standards Rules, which sets out the detailed requirements for the EBS.

Life and Health insurance contracts

The valuation of the net best estimate technical provisions was generally performed using the EBS Scenario-Based Approach. In some instances, approximations were used due to the nature of liabilities. Best estimate assumptions were based on company and/ or industry experience. The results of the scenario testing were implemented by deriving a set of discount rates such that the net best estimate technical provisions determined by using the set of discount rates produced the same best estimate technical provisions as the EBS Scenario-Based Approach. The valuation of best estimate technical provisions and associated reinsurance recoverables were derived using consistent methods and assumptions.

The EBS Scenario-Based Approach valuation was performed separately for the investment contract segment, which includes guaranteed interest product business, and for the insurance contract segment which includes the insurance and annuity business. The segmentation better reflects the different characteristics of the businesses.

Short-term insurance contracts

The starting point for the technical provisions is the IFRS undiscounted unpaid loss and loss adjustment expenses, gross and net of reinsurance. The technical provisions also reflects future claims events associated with unpaid loss and loss adjustment expenses for unexpired risk associated with business incepting prior to the reporting date and bound but not incepted exposures (“BBNI”). These unpaid loss and loss adjustment expenses were then adjusted for the following:

- Events not in dataset (“ENID”)
- Any other expenses incurred during the run-off of the existing policies
- An estimate of uncollectible reinsurance
- Premium receivables for premiums not yet due

All provisions were then discounted to take in to account the time value of money, using the relevant risk-free interest rate term structure with an appropriate illiquidity adjustment.

The calculations were performed for earned, unexpired and incepted business, and unexpired and BBNI business separately, both gross and net of reinsurance.

The loss and loss expenses provisions are comprised of cash flows associated with the earned business; the premium provisions are comprised of cash flows associated with the unexpired and BBNI business.

Finally, a risk margin is included to reflect the uncertainty inherent in the underlying cash flows.

Technical provisions

At 31 December 2019, the total Technical Provisions for the BF&M Group amounted to \$524 million (2018 - \$554 million) comprised of the following:

BF&M Group	General Business Insurance	Long-term Business Insurance	Consolidated
			2019
			\$'000
Premium provisions	(4,844)	Nil	(4,844)
Net loss and loss expense provision	29,009	489,612	518,621
Risk margin	2,264	7,649	9,913
Total technical provisions	26,429	497,261	523,690

BF&M Group	General Business Insurance	Long-term Business Insurance	Consolidated
			2018
			\$'000
Premium provisions	(13,872)	Nil	(13,872)
Net loss and loss expense provision	56,230	502,565	558,795
Risk margin	3,513	6,035	9,548
Total technical provisions	45,871	508,600	554,471

At 31 December 2019, the total Technical Provisions for BF&M Life Insurance Company Limited amounted to \$510 million (2018 - \$469 million) comprised of the following:

BF&M Life	General Business Insurance	Long-term Business Insurance	Consolidated
			2019
			\$'000
Premium provisions	Nil	Nil	Nil
Net loss and loss expense provision	12,929	489,612	502,541
Risk margin	160	7,649	7,809
Total technical provisions	13,089	497,261	510,350

BF&M Life	General Business Insurance	Long-term Business Insurance	Consolidated
			\$'000
2018			
Premium provisions	Nil	Nil	Nil
Net loss and loss expense provision	13,420	449,919	463,339
Risk margin	117	5,433	5,550
Total technical provisions	13,537	455,352	468,889

At 31 December 2019, the total Technical Provisions for BF&M General Insurance Company Limited amounted to \$14 million (2018 - \$8 million) comprised of the following:

BF&M General	General Business Insurance
2019	\$'000
Premium provisions	(4,844)
Net loss and loss expense provision	16,032
Risk margin	2,722
Total technical provisions	13,910

BF&M General	General Business Insurance
2018	\$'000
Premium provisions	(7,280)
Net loss and loss expense provision	13,966
Risk margin	1,300
Total technical provisions	7,936

C. Recoverables from reinsurance contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims.

The balance is adjusted for counterparty credit rating based on rating agency and experience default statistics.

D. Valuation bases, assumptions and methods used for other liabilities

All remaining financial liabilities are classified as other financial liabilities which include loans payable, and other liabilities. Under IFRS, 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.

Similar to the valuation principles for assets noted in 4 A., adjustments are required to the IFRS basis for SFS and EBS regulatory reporting and capital assessment purposes.

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.

E. Any other material information

There is no other material information to report.

5. Capital Management

A-B. Eligible capital and regulatory capital requirements

Capital requirements are reported on a quarterly basis to the Group's Audit Committee.

The Board of Directors reviews the available capital against targets on a quarterly basis, whilst also considering capital fungibility.

Management monitors the adequacy of the capital of the BF&M Group, BF&M Life and BF&M General 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.

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.

The Group adopts a very conservative approach to determining the levels and quality of capital it holds. The Group currently holds the majority of its capital as "Tier 1" capital (i.e. fully paid shares, contributed surplus and statutory surplus), in accordance with Eligible Capital Rules used to meet the Enhanced Capital Requirements (ECR) and Minimum Solvency Margin (MSM). "Tier 2" capital represents the excess of encumbered assets over policyholder obligations. No ancillary capital instruments have been approved by the BMA. There was no "Tier 2" capital in 2019.

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 2019, the Group, BF&M Life and BF&M General all exceeded the minimum requirement.

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

In 2016, the Board of Director's authorised a discretionary share repurchase programme up to a maximum of 500,000 BF&M Limited shares. The repurchased shares are held as treasury shares until reissued or cancelled.

Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus:

Differences between GAAP shareholder equity and available statutory capital and surplus include the following:

\$'000	Equity
Reported under IFRS	319,703
ADJUSTED FOR:	
Prudential filters	
Non admitted intangible assets	(42,590)
Non admitted equipment	(4,139)
Non admitted prepaids/other assets	(1,126)
EBS valuation adjustments	
Net technical provisions	22,304
Fair value real estate	36,041
Available statutory capital and surplus	330,193

Regulatory capital

BF&M Group, BF&M General and BF&M Life were all in compliance with their Minimum Margin of Solvency and Enhanced Capital Requirements.

As at 31 December 2019, the MSM and ECR were as follows:

BF&M Group \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	53,003	109,579
Eligible capital held:		
Tier 1	327,552	327,552
Tier 2	-	-
Tier 3	-	-
Total	327,552	327,552

BF&M General \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	24,810	99,241
Eligible capital held:		
Tier 1	187,013	187,013
Tier 2	-	-
Tier 3	-	-
Total	187,013	187,013

BF&M Life \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	24,570	24,570
Eligible capital held:		
Tier 1	91,244	91,244
Tier 2	-	-
Tier 3	-	-
Total	91,244	91,244

As at 31 December 2018, the MSM and ECR were as follows:

BF&M Group \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	46,816	94,727
Eligible capital held:		
Tier 1	326,706	326,706
Tier 2	291	291
Tier 3		
Total	326,997	326,997

BF&M General \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	15,795	63,178
Eligible capital held:		
Tier 1	170,289	170,289
Tier 2	–	–
Tier 3	–	–
Total	170,289	170,289

BF&M Life \$'000	Minimum Margin of Solvency	Enhanced Capital Requirement
Regulatory requirement	24,902	24,902
Eligible capital held:		
Tier 1	90,857	90,857
Tier 2		
Tier 3		
Total	90,857	90,857

C. Approved internal capital model used to derive the ECR

The Group currently uses the BMA's standard approach to capital computation and does not presently use an internal capital model.

This is with the exception of a bespoke credit risk charge. The Group has applied to the BMA for a modification to its credit risk charge to be used to assess capital required for catastrophic risk exposure in the 2019 BSCR. The BMA approved 3.5%. This represents a deviation from the 10% per the BMA standard model, to reflect the nature and strength of the Group's reinsurance programme and the underlying risk profile. This adjustment is also made for the BF&M General BSCR.

6. Subsequent Events

On 28 February 2020, the Group declared a dividend to be paid to shareholders of record at 31 March 2020. The dividend was paid on 15 April 2020. \$2.1 million was paid out in total representing a 24 cent per share dividend.

On 19 June 2020, the Group approved a dividend to be paid to shareholders of record at 30 June 2020. A 24 cent per share dividend will be paid on 14 July 2020. The number of shares and total amount to be paid has not yet been determined.

In early 2020, the world witnessed the emergence and rapid spread of a novel coronavirus. A global pandemic was soon declared and Covid-19 cases were reported around the globe, including in the

jurisdictions in which BF&M operates. In early March, and in line with the recommendations of governments worldwide, the BF&M Group closed all premises to limit the possible spread of the virus through human movement and social interactions. The organization swiftly and successfully transitioned to a remote-working model and systems improvements and internal process efficiencies were fast-tracked. Customers continued to be serviced online and by phone. Throughout, the health and safety of staff and customers have been paramount. While limited walk-in customer service was resumed in the latter part of June, the remote-working model continues for the company and will be reviewed and adjusted as appropriate as the situation evolves. The economic impact of Covid-19 has been unprecedented and the organization continues to monitor the situation closely.

Mr. Ian Campbell, Executive Vice President, Property and Casualty Insurance recently announced his decision to leave BF&M effective in July 2020. Recruitment for his replacement is underway.