

The
BF&M
difference

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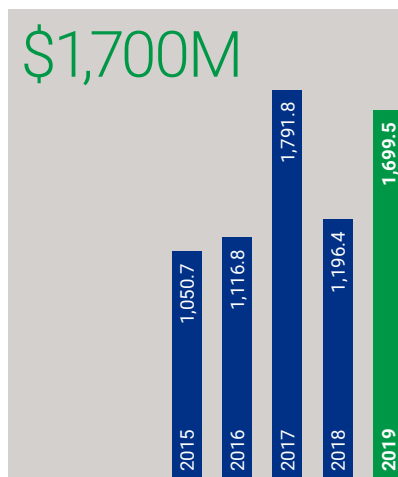
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90 Directors and Officers of Principal Operating Subsidiaries

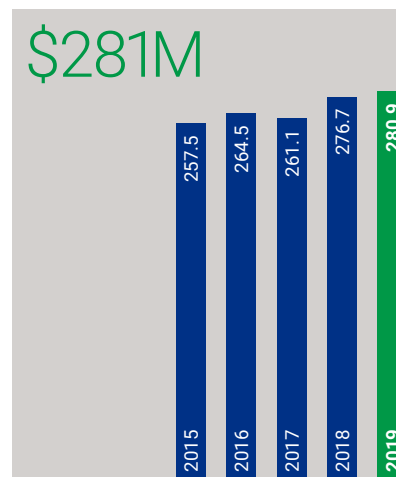
Financial and Statistical Summary

At End of Year

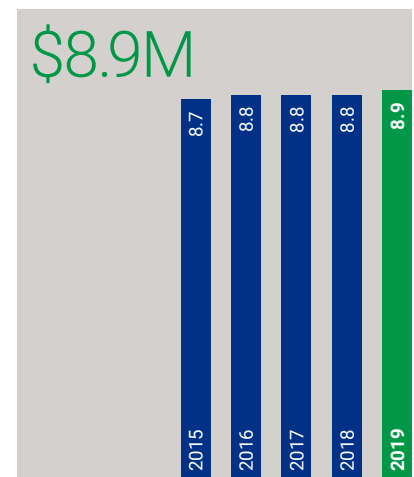
Total General Fund Assets
(in millions of dollars)



Shareholders' Equity
(in millions of dollars)

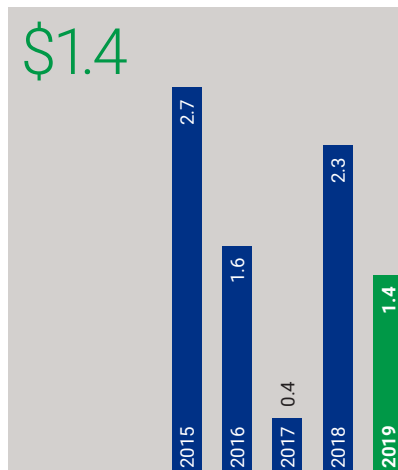


Number of Common Shares
(in millions of dollars)

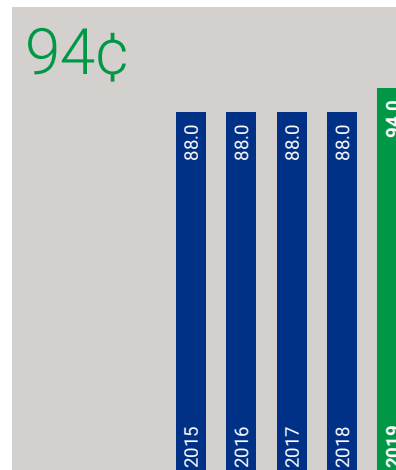


Per Common Share

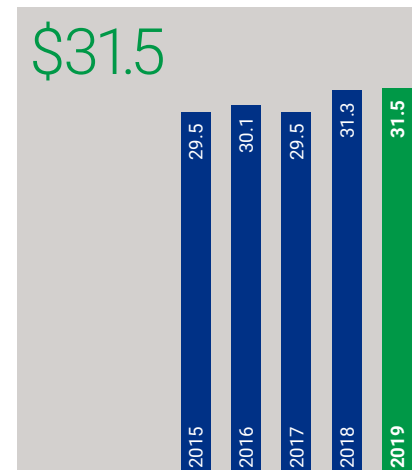
Net Earnings
(in dollars)



Cash Dividends
(in cents)

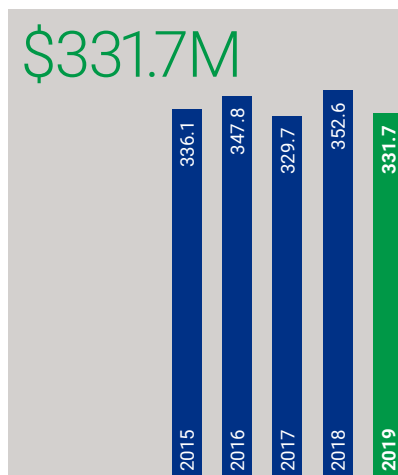


Book Value
(in dollars)



For the Year

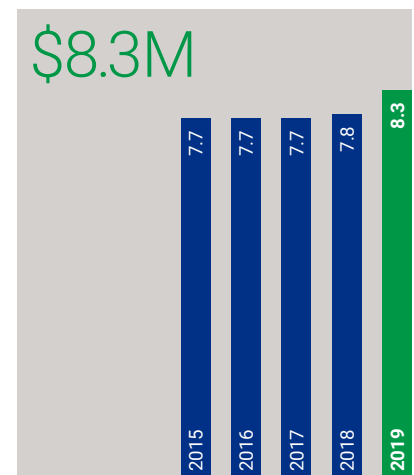
Gross Premiums Written
(in millions of dollars)



Shareholders' Net Income
(in millions of dollars)

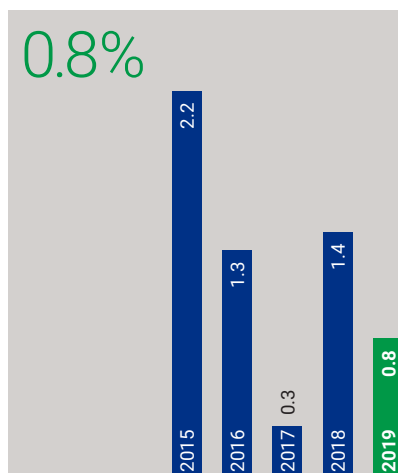


Dividends Declared
(in millions of dollars)

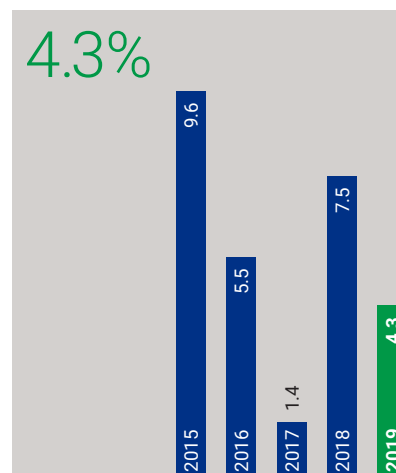


Financial Ratios

Return on Assets
(in percentages)



Return on Common Shareholders' Equity
(in percentages)



Report to Shareholders

BF&M Limited (“BF&M”, “the Company” or “the Group”) achieved strong returns in 2019, a year that was tumultuous in many ways. Shareholders’ net earnings were \$11.9 million. Return on Shareholders’ Equity was 4.3%. We weathered two major hurricanes—Dorian in the Caribbean and Humberto in Bermuda, and we tackled major regulatory, legislative and operational reform imposed on our industry as a whole.



Throughout, we went to significant lengths to engage with all stakeholders, in particular our customers, keeping them abreast of latest changes and of their implications, and fostering open dialogue.

We frequently hear about change being “the new normal”. While the phrase is somewhat of a cliché, the full meaning of what it entails was brought sharply into focus, at time of writing, by the global disruption caused by Covid-19. At BF&M, we believe that nimbleness and readiness for change are essential qualities of being a leading insurer—always with our customers at the centre of all that we undertake. With ever-increasing compliance and regulatory demands dominating the landscape, from privacy laws to the new and substantial IFRS 17 accounting standard change scheduled for implementation in 2023, we invested significant effort during 2019 to be ready for change. 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. How critically important that has proven to be as I write in early 2020.

Stability amid change

Amid the considerable shift, some constants remained—constants that form the cornerstones of BF&M’s track record of strong performance over time. One such constant is what we call “the BF&M difference”, which encompasses our commitment to our customers, to making a difference in the communities we serve and to upholding our core values of truth, trust and team. In last year’s report, we highlighted some examples of the difference we make to our customers,

sharing some of their feedback on the value we provide. This year, we are highlighting the BF&M difference at work in our communities, through our corporate social responsibility engagements.

Another constant—and key differentiator—is our financial strength. Once again, our group P&C businesses were the first in the region to have financial strength ratings by A.M. Best reaffirmed following Hurricane Dorian. These ratings are the highest attributed to a domestic insurer in the Caribbean region and Bermuda:

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)

A third constant is our strategy of diversification both by geography and by lines of business. This strategic approach was at the heart of BF&M performing so well in 2019, despite the significant hurricane claims we paid out to our policyholders. Through the year, the Group was successful in growing its benefits offerings for employers and its pension administration business—non-correlated to P&C business.

2019 Results

Shareholders’ net earnings of \$11.9 million in 2019 resulted in a Return on Shareholders’ Equity of 4.3%, as compared to earnings of \$20.2 million and a return of 7.5% in 2018. Shareholders’ Equity at 31 December 2019 was \$280.9 million.

In 2019, two major hurricanes impacted our results. We were thankful that 2018 storm

Board of Directors

R. John Wight (Pictured left)
Group Chairman and CEO,
BF&M Limited

L. Anthony Joaquin²
Deputy Chairman,
Retired Managing Partner,
Ernst & Young

Nancy L. Gosling²
President and CEO,
Gosling Brothers Limited

Christopher L. Harris²
Former CEO,
Montpelier Re Holdings Ltd.

Gregory D. Haycock¹
Retired Senior Partner,
KPMG

Gordon J. Henderson¹
Retired President and CEO,
BMO Life Insurance Company

Catherine S. Lord²
Retired

Paul C. J. Markey²
Retired Chairman,
AON Bermuda

Conor O’Dea¹
Chairman / Director,
Butterfield Bank (Cayman) Ltd.

Richard D. Spurling¹
Retired Partner,
Appleby

¹ Finance, Compensation and Corporate Governance Committee

² Audit, Compliance and Corporate Risk Management Committee

Report to Shareholders (continued)

activity across the regions in which we operate was light. 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 2019 resulted in an increase in investment income due to favourable financial markets. This increase to investment income of \$37.7 million compared with a decrease of \$15.8 million in 2018.

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

(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 2019, the difference between the fair valuing of investments supporting reserves and reserve liabilities for BF&M's Life insurance companies produced a net gain of approximately \$1.8 million. In 2018, the asset liability matching difference resulted in a net gain of approximately \$5.2 million.

While the core business operations performed well, the Company did however set up further impairment provisions of \$5.0 million relating to its commercial and residential properties that reduced in value in 2019. In addition, following a strategic decision by the Company to focus on its

core territories, an impairment in the amount of \$6.6 million was recorded in 2019 to reflect the decision to sell its 51.2% interest in the Insurance Corporation of Barbados Limited.

BF&M acquired this interest in the Insurance Corporation of Barbados Limited in 2006. While this company provided stable and acceptable returns to BF&M over many years, the Barbados economy has been very challenged in recent years, highlighted by the International Monetary Fund's intervention and financial support of Barbados in 2018.

Property and Casualty Insurances

Nowhere is the BF&M difference more apparent than during hurricanes. It is when

Group Executive Committee



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



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

anxiety levels are high and communities face major damages that our policyholders need us most. 2019 was a year when, once again, our customers recognised the value of having a financially strong, caring and responsive insurer.

With communities in the Caribbean still recovering from 2017 Hurricanes Irma and Maria, the region bore the brunt of another devastating storm. A Category 5 hurricane, Dorian set a number of records, one of which was being the most intense land-falling hurricane the Atlantic Basin had experienced. It caused unprecedented destruction in the Bahamian Island of Abaco and significant damage in Grand Bahama, and our thoughts continue to be with those directly impacted by such catastrophic storm activity. Through our

sister company Island Heritage Insurance Company, Ltd. ("Island Heritage") in Cayman, the BF&M group of companies made a substantial donation to the Red Cross Hurricane Dorian appeal. In Bermuda, Hurricane Humberto lashed the island as a powerful Category 3 storm, knocking out 80% of the residents' power and causing damage to homes, boats and businesses.

As a result of these storms, 2019 net earnings for the division were down from those recorded in 2018. However, despite significant claims, our P&C businesses recorded a profit for the period. The robust reinsurance programme we had in place responded as expected following the storms. We continue to be strongly committed to the region and the aggregate value of property risks in Bermuda and the

Caribbean grew year over year. The cost of reinsurance that the Group purchases to assist in the payment of catastrophe-related claims has continued to increase following the significant storm activity and this has inevitably led to the need to increase pricing across the Caribbean.

I am proud of our staff, particularly our claims teams in both Cayman and Bermuda, who responded in a timely and professional manner through the storms. This is the reason people buy insurance, and "the BF&M difference" is demonstrated by all members of staff across our group of companies, who make it their top priority to go above and beyond for our customers when it counts.

At the end of 2018, we launched a new personal lines administration system in



Lily Chen, CPA, CA
Group Chief
Financial Officer



Ian G. Campbell, B.Sc., FCA
Executive Vice President,
Property and Casualty



Stephanie A. Hanson, LL.B (Hons)
Group General Counsel and
Group Compliance Officer

Report to Shareholders (continued)

Bermuda. Through 2019, this system became fully embedded and we were able to provide increased functionality for users, along with a much-enhanced look and feel. We are seeing a growing number of customers welcoming the increased convenience that comes with transacting more of their insurance business online.

Pensions and Investments

BF&M Investment Services Limited demonstrated strong performance following an extraordinary year in the capital markets. The S&P 500 index finished the year up 30% while Global stocks as measured by the MSCI All Country World Index were up over 26%. Bonds also produced positive returns as measured by the Barclay US Aggregate Bond Index, which was up 8.7%.

Cayman continues to be a strong source of growth opportunity for us. With the establishment of our Island Heritage Retirement Trust Company, we successfully onboarded 21 corporate groups in 2019. We are confident that the range of investment options we offer, along with our responsive service, are a differentiator for us resulting in continued growth.

Early in the year, we launched our new financial planning service and Financial Wellbeing in the WorkPlace platform. At BF&M, we believe that financial stress is a common and far-reaching phenomenon,

so we introduced a new product to help both our corporate and individual clients to manage their financial wellness. At our launch event, keynote speaker Carl Richards and BF&M's Jason Cook, VP, Financial Planning and Individual Life, examined the question of how to get a better return on life, rather than focus exclusively on return on investment and beating an index.

Health and Life Insurances

The Health and Life division performed well in 2019 and we achieved strong earnings, benefitting in no small part, once again, from our strategy of diversification of business lines within the division.

One of the most significant events of the year for Bermuda's health insurance industry was the Government's announcement of fundamental reform of the healthcare financing system. Legislated changes at June 1 resulted in most services at the Bermuda Hospital no longer being covered under the private insurance model. This fundamental change has meant a shift of approximately a third of our premiums and claims to a publicly-funded model. More change is expected in the future.

Prior to the announcement, as part of our normal annual renewal process and in line with our philosophy of educating our stakeholders, BF&M had been communicating with customers about

“The BF&M difference” is demonstrated by all members of staff across our group of companies, who make it their top priority to go above and beyond for our customers when it counts.



BF&M Breast Cancer Awareness Walk

BF&M has been sole sponsor of the BF&M Breast Cancer Awareness Walk for 23 years. Now a signature fixture in Bermuda's calendar, the event draws around 2,000 people each year and all proceeds go to the Bermuda Cancer and Health Centre.

“Doing the BF&M Breast Cancer Walk each year is my way of thanking my family and friends for supporting me during my treatment and recovery, and to show others who are still fighting that they aren't alone and to never give up hope.”

Beverley Barton,
Breast Cancer Survivor

Endeavour Community Sailing

BF&M is a major sponsor of the broader Endeavour sailing programme, as well as being sole sponsor of the BF&M No Limits sailing programme for children with autism. Since the inception of Endeavour in 2015, over 2,700 young people from all schools and backgrounds have engaged in learning through sailing.

“We are so grateful for the opportunity to participate in the BF&M No Limits Sailing Programme with Endeavour. The Berkeley Autism Spectrum Disorder (ASD) students absolutely LOVE the programme and look forward to it every year... I believe that the programme is a powerful form of recreational therapy for students with ASD. They truly enjoy the experience and I notice immediate positive outcomes after participating in the programme.”

Ashleigh Lowe, ASD Teacher,
The Berkeley Institute



Report to Shareholders (continued)

the drivers of healthcare costs, possible steps to be taken by individuals to reduce costs, the components of insurance premiums and the role of insurers. As the Government publicised its proposed reforms, we shared updated, clear information to explain the changes. We also ran a series of information sessions for our corporate customers, so that they could better understand what the impacts of the changes meant for their organisations and themselves.

Against this backdrop, our mandate is clear: first, to focus on continuing to provide our clients with competitive benefits that facilitate access to quality care both locally and overseas; second, to collaborate with all stakeholders to support an improved, sustainable healthcare system for our community.

In efforts to improve efficiencies and customer service, we restructured our approach to our individual lines of business. As a result, we built and internally promoted an in-house team to support and service our Individual Life, Health and Pension business. We remain committed to providing Life Insurance and ensuring we can adapt to the changing needs of our customers.

Caring for our customers

BF&M remains steadfast in its commitment to address the underlying root causes that contribute significantly to driving up healthcare costs, by helping to address the prevalence of chronic disease and

unhealthy lifestyle factors. We believe our wellness programme is a differentiator and we provide significant support to the community through our robust wellness offerings and individualised client wellness plans.

In 2019, we led a number of sessions for our Health clients about how to maximise their health care dollars via our benefits, programmes and local resources. We expanded our digital, 24/7 access, global LiveWell Wellness Platform, which highlights all of our wellness partners, and provides links to supporting videos and other resources. We extended our wellness benefits to include the Omni Medical Lifestyle Change and the Fountain Health Diabetes Care programmes. We continued to offer the very popular BF&M Eat Right for Life Programme to all clients, which includes Meal Planning 101 and Plant-Based Cooking.

Caring for our communities

As a leading health insurer in Bermuda, we feel a tremendous sense of responsibility and pride around supporting wellness-related community partnerships and charities. In October, we celebrated our 23rd year as sole sponsor of the BF&M Breast Cancer Awareness Walk—a signature fixture in Bermuda's calendar. The event draws around 2,000 people each year and all proceeds go to the Bermuda Cancer and Health Centre.

We also supported Bermuda Cancer and Health Centre's Relay for Life,

Health Talks and Men's Health Fair events. Through the year we sponsored the Bermuda Heart Foundation's Invest in your Health Campaign, the Bermuda Diabetes Association's Think Tanks, P.A.L.S. community events, and an Open Airways free online asthma education course entitled "Supporting Children's Health—Asthma".

We were pleased to support the Premier's Youth Fitness Programme, working with the Departments of Health and Education, as well as participating on the Healthy Schools Committee and Well Bermuda Committee, and to assist with community health and wellness projects such as the Annual Celebrating Wellness Health Fair and the Move More Campaign.

We were also proud to support the Women in Sport Expo introducing our young girls to the wide variety of sports and physical activities in Bermuda. We also sponsored jump ropes for the Bermuda Jump Rope Foundation's youth programmes; books for East End Primary World Book Day and participation in a Healthy Lunchbox Workshop for parents at Harrington Sound Primary.

Our sister company in Cayman, Island Heritage, once again held a very successful CharityDrive. CharityDrive has become Island Heritage's signature event, and for the eighth consecutive year, motorists were encouraged to drive around the Island Heritage roundabout to raise funds for three selected charities: the Alex Pantou



Island Heritage CharityDrive

Now a signature Island Heritage event after eight years, the public is encouraged to drive around a roundabout to raise funds for three selected charities. Cayman charities for 2019 receiving CharityDrive support were the Cayman National Cultural Foundation, the Guy Harvey Ocean Foundation and the Alex Pantou Foundation.

“The funds will assist in making a diverse roster of programming on CNCF’s cultural calendar a reality... We are happy that Island Heritage recognises the importance of what we do. Our work with and for our entire community—from the very young to seniors—has positively changed the way arts and culture is understood and regarded in the Cayman Islands.”

Cayman National Cultural Foundation
Managing Director, Marcia Muttoo

Report to Shareholders (continued)

Foundation, the Guy Harvey Ocean Foundation and the Cayman National Cultural Foundation.

I am always impressed by the generosity and enthusiasm of all of our staff across the Group, who give so willingly of their time. From food and toy drives in Nova Scotia to walking “In Her Shoes” for the Cayman Islands Crisis Centre for women, the many ways in which each of our operations engages with those less fortunate than ourselves are inspiring. The Bermuda office—the largest of our operations—supports around 80 charities and organisations. In Cayman, our next largest, well over 50 organisations are supported.

Our people

During 2019, we welcomed Lily Chen in the role of Group Chief Financial Officer. Before joining BF&M, Lily served as Divisional Chief Financial Officer and Chief Administrative Officer of Berkshire Hathaway Group, Reinsurance Division. She brings over 20 years of experience of finance, strategic and operational leadership in a global finance function. In Bermuda, we also welcomed Gemma Rochelle as Associate General Counsel, Andrew Franklin as VP, Head of Pensions and Tamika Bartley as VP, Compliance.

The following people were recognised with promotions through the year:

In Bermuda

- Patrick Neal:
SVP, Chief Underwriting Officer
- Geraldine Kempe:
SVP, Group Head Communications,
Brand and Customer Experience
- Emilie Purchase:
Claims Risk Manager/Overseas
Claims Specialist
- Krystle Ratteray:
Marketing and Events Manager
- leisha Tucker-Minors:
Manager, Customer Care Individual Lines

In Cayman and Barbados

- Evelyn Tibbetts-Farrar:
SVP, Chief Underwriting Officer (Cayman)
- Ryan Williams:
VP, Business Development and
Motor Claims
- David Meyerhoff:
Internal Reporting and MIS Manager
- Patrice Myles:
Claims Manager

In Halifax

- Sean Gatien:
VP, Applications

“I am always impressed by the generosity and enthusiasm of all of our staff across the Group, who give so willingly of their time.”

Report to Shareholders (continued)

The following employees achieved professional designations or qualifications:

In Bermuda

- Jody-Ann Holder: Certified Information Systems Auditor
- Stacy Ashby: CPCU

In Cayman

- Owen McLaughlin: CII Cert in Insurance
- Carol Phelps: CII Cert in Insurance
- Brandon Glasgow: CII Cert in Insurance

Appreciation and thanks

At this time, I would like to recognise the dedication and significant contributions of our Board of Directors. I am grateful for the counsel, perspective and expertise of each of our Directors, and the sound governance they provide. We will be saying farewell to Gregory Haycock, Richard Spurling, and Catherine Lord, who are retiring after many years of invaluable service. We thank them for their devotion to our Company.

I would also like to acknowledge the hard work and determination of both my management team and all the staff across the group of companies. It is thanks to efforts and teamwork of the entire Group that we have been successful in a demanding year.

The challenges ahead

Being ready for change is clearly a prerequisite for success. Through 2019, we experienced first-hand the importance of being able to respond effectively to the rapid pace of reform such as we have seen in the legislative and regulatory landscape in which we operate. When I wrote the original draft of my message to Shareholders, I stated at this point “We can expect more changes to come.” Little did we know about the extent of the upheaval from the novel coronavirus to come. I am immensely proud of the resourcefulness of all the staff across the BF&M group of companies, who were quickly able to turn their efforts to re-tooling our operations in the face of unprecedented global disruption. We are well-capitalised and have a strong cash position to weather the pandemic and be there for our customers. Companies must also prepare for the reality of climate change and its inevitable impacts on our industry.

Economies of scale are ever-more important in the Bermuda and Caribbean markets as the complexities of the business increase. Our size, diversified businesses and expertise position us well versus our competitors in our markets. Economies of scale translate into more cost effective reinsurance terms and more efficiencies of systems and talent.

I have already seen the positive outcomes of the hard work accomplished in 2019, which positioned us so well to tackle the challenges of early 2020. I am confident that we have the right people to lead our organisation as we continue to meet the evolving expectations of both our customers and our shareholders. We are excited about our future.

On behalf of the Board and staff of the BF&M group of companies, I thank you for your support and loyalty through 2019.



John Wight, FCPA, FCA, CPCU

Group Chairman and
Chief Executive Officer



Bermuda ITU World Triathlon 2019

“BF&M’s sponsorship of World Triathlon Bermuda has been absolutely invaluable to us as the organisers. Sponsorship provides a substantial proportion of our funding and we would not be able to present the event to its world-class standard without that support.

More than just the financial support, however, it is the support across the board that matters: BF&M’s enthusiasm is impactful. It has even made a part of the race course its own, now known as the “BF&M turn”, complete with its lively hospitality, big screen and crowd. From entering teams in the relay event to providing us with volunteers, BF&M has really embraced the event in 2018 and 2019 and we love having them involved.”

Chair of the Local Organising Committee,
Hazel Clark

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Responsibility for financial reporting

For the year ended 31 December 2019

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 1 April 2020. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.



R. John Wight, FCPA, FCA, CPCU

Group Chairman
and Chief Executive Officer



Lily Chen, CPA, CA

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 2019, 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 2019;
- 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.

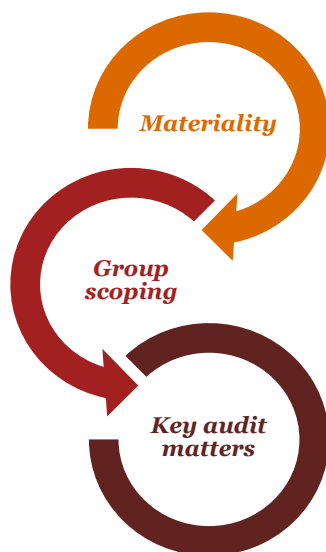
Independence

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: \$1.9 million, which represents 1.0% of net premiums earned for 2019.
- We conducted an audit of four full scope components covering over 90% of the Group's consolidated total assets and revenues. Each of the four components were audited by component audit teams located in Bermuda, the Cayman Islands, and Barbados. The Group engagement team has regular interaction with the aforementioned component teams.
- 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
- Assessment of potential impairment of goodwill

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.

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 16 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 by PwC component auditors in Bermuda, the 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.

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 with over 90% coverage of operations as measured by consolidated total assets and revenue. These components are: (i) BF&M Life Insurance Company Limited, (ii) BF&M General Insurance Company Limited, (iii) Island Heritage Insurance Company, Ltd. and (iv) Insurance Corporation of Barbados Limited (the discontinued operation). Additionally, based on our professional judgment, 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 had regular interaction with all component teams, and the engagement leader visited the component teams in the Cayman Islands and Barbados during the year. The Group team reviewed in detail all reports with regards to the audit approach and findings submitted by the full scope component auditors.

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 consolidated financial statements as a whole.

Overall group materiality	\$1.9 million
How we determined it	1.0% of net premiums earned for 2019
Rationale for the materiality benchmark applied	<p><i>We chose net premiums earned (inclusive of the net premiums earned within the discontinued operation) as the benchmark because in our view it is the benchmark against which the historical share price of the Group trends most closely, and therefore is most meaningful to users of the Group's consolidated financial statements. Net premiums earned fairly represents the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed.</i></p> <p><i>We chose a threshold of 1.0%, which is within the range of acceptable quantitative materiality thresholds for our selected benchmark, to arrive at our determination of materiality.</i></p>



We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$77,000 dollars, and reclassification misstatements above \$1.9 million 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>Valuation of incurred but not reported claims for property and casualty lines</p> <p><i>See notes 2, 5B, and 23 to the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.</i></p> <p>Total incurred but not reported reserves as at 31 December 2019 are \$86.6 million.</p> <p>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 reported, a provision for development on reported claims, together with the related claims handling costs. A range of methods may be used to determine these provisions.</p> <p>Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are also subject to complex calculations.</p> <p>Management uses an external actuarial expert to assist in determining the value of claims incurred but not reported.</p>	<p>Our approach to testing management’s valuation of incurred but not reported claims for property and casualty lines involved the following procedures, amongst others:</p> <ul style="list-style-type: none"> • In order to challenge management’s assumptions and methodologies, we were assisted by our PwC 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 compared the Group’s actuarial methodologies with those used in the insurance industry and with prior periods. • We tested the completeness, accuracy and reliability of the underlying data utilized by management and their external actuarial experts to support the actuarial valuation. <p>The results of our procedures indicated that the estimates recorded by management for incurred but not reported claims for property and casualty lines are not unreasonable.</p>



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

See notes 2, 5B, and 23 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 2019 are \$210.6 million.

The valuation of the provision 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 policy administration expenses.

Management uses both internal and external actuarial experts to assist in determining these assumptions and in valuing insurance contract liabilities for life and health claims.

Our approach for testing management's methodologies and assumptions used for determining insurance contract liabilities for life and health claims involved the following procedures, amongst others:

- We tested a sample of contracts to ascertain that contract features were appropriately reflected by the actuarial model.
- We have utilized our PwC actuarial experts to assist in the evaluation of the methodologies and assumptions utilized by management's actuarial experts 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 policy administration expenses, all of which are based on the experience of the relevant component or published industry studies, and consistent with the required actuarial standards of practice.
- We tested the completeness, accuracy and reliability of the underlying data, including the key assumptions utilized by management and their actuarial experts to support the actuarial valuation.

The results of our procedures indicated that the methodologies and assumptions used by management for determining insurance contract liabilities for life and health claims are not unreasonable.

Assessment of potential impairment of goodwill

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

The total carrying value of goodwill amounts to \$7.7 million as at 31 December 2019, which relates entirely to the goodwill created upon

Our approach for testing management's evaluation of potential impairment of goodwill involved the following procedures, amongst others:

- We evaluated management's future cash flow forecasts for the Cash Generating Unit ("CGU"), Island Heritage Insurance Company, Ltd., which supports the carrying value of goodwill.
- With respect to management's assumptions surrounding cash inflows and outflows, we performed the following:



acquisition of Island Heritage Insurance Company, Ltd. in 2012.

The future cash flow forecasts utilized to develop management's assessment of potential impairment for goodwill involves significant judgment, given both industry and relevant component facts and circumstances.

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

- Compared management's forecasts against historical performance of the CGU, as well as the current market environment,
- Evaluated the discount rate applied against market based inputs, and
- Performed sensitivities around the key assumptions and considered the likelihood of these outcomes.
- Tested the mathematical accuracy of management's impairment model.
- We were assisted by our PwC valuation expert who performed an independent assessment of value of the CGU using management's cash inflows and outflows. The range of values that resulted from this assessment were consistent with management's conclusion that there is no impairment of goodwill for the Island Heritage Insurance Company, Ltd. CGU as at 31 December 2019.

Based on the procedures performed, no adjustments to the consolidated financial statements were deemed necessary.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

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.

Reference: Independent Auditor's Report on the Consolidated Financial Statements of BF&M Limited as at 31 December 2019 and for the year then ended
Page 6 of 8



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.

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.

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 Marisa Savage.

PricewaterhouseCoopers Ltd.

**Chartered Professional Accountants
Hamilton, Bermuda
13 April 2020**

26 Consolidated Statement of Financial Position

As at 31 December 2019

(in thousands of Bermuda dollars)

	Notes	2019 \$	2018 \$
Assets			
Cash and cash equivalents	9	143,333	160,712
Fixed deposits	10	-	4,102
Regulatory assets	10	23,258	22,457
Investments	11	630,147	633,580
Insurance receivables and other assets	12	120,992	86,943
Deferred acquisition costs	13	11,614	10,922
Reinsurance assets	14	514,101	145,115
Investment properties	15	20,097	34,560
Property and equipment	16	16,039	24,018
Tax recoverable	17	1,212	1,436
Deferred tax asset	17	746	825
Intangible assets	18	42,590	51,819
Restricted cash	10	-	19,926
Assets held for sale	4	175,375	-
Total general fund assets		1,699,504	1,196,415
Segregated funds assets	19	1,028,050	822,613
Total assets		2,727,554	2,019,028
Liabilities			
Other liabilities	20	182,465	124,231
Retirement benefit obligations	21	1,441	1,850
Investment contract liabilities	22	299,608	327,266
Insurance contract liabilities	23	769,756	427,725
Liabilities held for sale	4	126,531	-
Total general fund liabilities		1,379,801	881,072
Segregated funds liabilities	19	1,028,050	822,613
Total liabilities		2,407,851	1,703,685
Equity			
Share capital	24	8,923	8,827
Treasury shares	24	(1,168)	(325)
Contributed surplus	24	1,482	1,482
Share premium	24	63,589	62,167
Accumulated other comprehensive loss	29	(5,509)	(5,468)
Retained earnings		213,584	209,984
Total shareholders' equity		280,901	276,667
Non-controlling interests		38,802	38,676
Total equity		319,703	315,343
Total liabilities and equity		2,727,554	2,019,028

Approved by the Board of Directors



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



L. Anthony Joaquin, FCA, JP
Deputy Chairman

Consolidated Statement of Income

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For the year ended 31 December 2019

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

	Notes	2019 \$	2018 (restated)* \$
Income			
Gross premiums written		331,712	296,420
Reinsurance ceded		(174,710)	(142,185)
Net premiums written		157,002	154,235
Net change in unearned premiums	23	(2,215)	(1,428)
Net premiums earned		154,787	152,807
Investment income (loss)	11	50,718	(2,318)
Commission and other income	26	45,771	44,199
Rental income		2,923	2,930
Total income		254,199	197,618
Benefits and Expenses			
Insurance contracts benefits and expenses			
Life and health policy benefits	27	118,952	85,413
Short term claim and adjustment expenses	27	18,475	13,495
Investment contract benefits		9,170	(3,634)
Participating policyholders' net loss		388	187
Commission and acquisition expense		28,719	25,368
Operating expenses	28	48,610	44,432
Amortisation expense		10,451	8,188
Interest expense	16	101	-
Total benefits and expenses		234,866	173,449
Net income before income taxes		19,333	24,169
Income taxes recovered (expense)	17	(219)	(297)
Income from continuing operations		19,114	23,872
(Loss) from discontinued operations	4	(6,032)	(5,336)
Net income for the year		13,082	18,536
Net income attributable to:			
Shareholders		11,908	20,237
Non-controlling interests in subsidiaries		1,174	(1,701)
Net income for the year		13,082	18,536
Net income from continuing operations attributable to:			
Shareholders		18,240	22,973
Non-controlling interests in subsidiaries		874	899
Net income from continuing operations for the year		19,114	23,872
Net income / (loss) from discontinued operations attributable to:			
Shareholders	4	(6,332)	(2,736)
Non-controlling interests in subsidiaries		300	(2,600)
Net income / (loss) from discontinued operations for the year		(6,032)	(5,336)
* See Note 4 to the Consolidated Financial Statements.			
Earnings per share			
Basic and fully diluted – from continuing operations	30	\$2.07	\$2.61
Basic and fully diluted – from discontinued operations	30	(\$0.72)	(\$0.31)
Basic and fully diluted – total	30	\$1.35	\$2.30

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

28 Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(in thousands of Bermuda dollars)

	Notes	2019 \$	2018 (restated)* \$
Net income for the year		13,082	18,536
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss			
Re-measurement of retirement benefit obligations		(462)	3,470
Re-measurement of retirement benefit obligations from discontinued operations		(56)	(3,192)
		(518)	278
Items that may be subsequently reclassified to profit or loss			
Investments classified as available for sale			
Fair value gains from discontinued operations		482	44
Currency translation differences		194	(283)
		676	(239)
Total other comprehensive income for the year after income taxes		158	39
Total other comprehensive income / (loss) attributable to:			
Shareholders		(41)	1,491
Non-controlling interests in subsidiaries		199	(1,452)
Total other comprehensive income / (loss) for the year after income taxes		158	39
Total other comprehensive income / (loss) from continuing operations attributable to:			
Shareholders		(259)	3,104
Non-controlling interests in subsidiaries		(9)	83
Total other comprehensive income / (loss) for the year after income taxes		(268)	3,187
Total other comprehensive income / (loss) from discontinued operations attributable to:			
Shareholders		218	(1,613)
Non-controlling interests in subsidiaries		208	(1,535)
Total other comprehensive income / (loss) from discontinued operations for the year after income taxes		426	(3,148)
Comprehensive income		13,240	18,575
Comprehensive income / (loss) attributable to:			
Shareholders		11,867	21,728
Non-controlling interests in subsidiaries		1,373	(3,153)
Comprehensive income		13,240	18,575
Comprehensive income from continuing operations attributable to:			
Shareholders		17,564	26,077
Non-controlling interests in subsidiaries		1,282	982
Comprehensive income from continuing operations		18,846	27,059
Comprehensive income / (loss) from discontinued operations attributable to:			
Shareholders		(5,697)	(4,349)
Non-controlling interests in subsidiaries		91	(4,135)
Comprehensive income/ (loss) from discontinued operations		(5,606)	(8,484)

* See Note 4 to the Consolidated Financial Statements.

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

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

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	Notes	2019 \$	2018 \$
Share capital			
Balance – beginning of year		8,827	8,847
Shares issued under employee share purchase plan	24	29	2
Shares issued under equity incentive plan	24	14	1
Share grants issued under equity incentive plan	24	80	-
Share grants forfeited under equity incentive plan	24	(27)	(23)
Balance – end of year		8,923	8,827
Treasury shares			
Balance – beginning of year		(325)	(2,031)
Acquisition of shares	24	(843)	(325)
Shares issued under employee share purchase plan	24	-	426
Shares issued under equity incentive plan	24	-	1,605
Balance – end of year		(1,168)	(325)
Contributed surplus – beginning and end of year		1,482	1,482
Share premium			
Balance – beginning of year		62,167	63,249
Shares issued under employee share purchase plan	24	434	29
Shares issued under equity incentive plan	24	215	12
Share grants issued under equity incentive plan	24	1,183	(232)
Share grants forfeited under equity incentive plan	24	(183)	(707)
Treasury shares allocated	24	-	(96)
Deferred share grant	24	(227)	(88)
Balance – end of year		63,589	62,167
Accumulated other comprehensive loss			
Balance – beginning of year		(5,468)	(6,959)
Other comprehensive (loss) / income for the year – from continuing operations		(259)	3,104
Other comprehensive income / (loss) for the year – from discontinued operations		218	(1,613)
Balance – end of year		(5,509)	(5,468)
Retained earnings			
Balance – beginning of year		209,984	196,558
Adjustment for change in accounting policy		-	944
Balance – beginning of year after change in accounting policy		209,984	197,502
Net income for the year – from continuing operations		18,240	22,973
Net loss for the year – from discontinued operations		(6,332)	(2,736)
Cash dividends		(8,308)	(7,755)
Balance – end of year		213,584	209,984
Total equity attributable to shareholders of the company		280,901	276,667
Attributable to non-controlling interests			
Balance – beginning of year		38,676	43,582
Net income for the year – from continuing operations		874	899
Net income / (loss) for the year – from discontinued operations		300	(2,600)
Other comprehensive (loss) / income for the year – from continuing operations		(9)	83
Other comprehensive income / (loss) for the year – from discontinued operations		208	(1,535)
Cash dividends		(1,247)	(1,753)
Balance – end of year		38,802	38,676
Total equity		319,703	315,343

The dividends paid in 2019 and 2018 were \$8,308 (\$0.94 per share) and \$7,755 (\$0.88 per share) respectively.

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

30 Consolidated Statement of Cash Flows

For the year ended 31 December 2019
(in thousands of Bermuda dollars)

	Notes	2019 \$	2018 \$
Cash flows from operating activities			
Income from continuing operations for the year before income taxes		19,333	24,169
Loss from discontinued operations for the year before income taxes	4	(6,057)	(5,448)
Adjustments for:			
Investment income		(20,829)	(21,768)
Net realised loss (gain) on investments		(1,259)	9,812
Change in fair value of investments		(36,470)	13,158
Impairment of investments		4,972	2,122
Amortisation of property and equipment		1,484	1,748
Amortisation of investment properties		814	1,066
Amortisation of intangible assets		8,153	6,435
Impairment of investment properties		-	712
Loss / (gain) on sale of property and equipment		13	(320)
Interest expense		101	-
Compensation expense related to shares and options		995	981
Adjustment for change in accounting policy		-	944
Loss on write down of discontinued operations		6,635	-
Changes in assets and liabilities:			
Restricted cash		-	(868)
Fixed deposits & regulatory assets		(797)	(3,784)
Insurance receivables and other assets		(49,218)	53,902
Deferred acquisition costs		(1,810)	(1,345)
Reinsurance assets		(393,064)	479,102
Net tax recoverable		(27)	372
Insurance contract liabilities		417,816	(488,427)
Investment contract liabilities		15,559	(7,972)
Other liabilities		65,805	(108,207)
Retirement benefit obligations		513	(1,068)
Cash generated from / (used in) operations		32,662	(44,684)
Income taxes recovered / (paid)		(381)	1,445
Interest received		20,083	21,456
Dividends received		818	818
Cash flows from operating activities – discontinued operations		6,313	-
Net cash (used in) / generated from operating activities		59,495	(20,965)
Cash flows from investing activities			
Purchase of investments		(186,139)	(258,854)
Proceeds from sales of investments		154,803	251,437
Acquisition of property and equipment		(1,472)	(1,944)
Maturity of fixed deposits		-	1,605
Proceeds from sales of property and equipment		5	262
Acquisition of investment properties		(1,814)	(578)
Acquisition of intangible assets		(1,716)	(5,155)
Cash flows from investing activities – discontinued operations		(4,614)	-
Net cash used for investing activities		(40,947)	(13,227)
Cash flows from financing activities			
Cash dividends paid		(8,308)	(7,755)
Interest paid		(101)	-
Cash dividends paid to non-controlling interest		-	(1,753)
Acquisition of treasury shares		(843)	(325)
Cash proceeds on issue of common shares		523	(52)
Principal elements of lease payments		(370)	-
Cash flows from financing activities – discontinued operations		(1,247)	-
Net cash used for financing activities		(10,346)	(9,885)
Effect from changes in exchange rates		194	(283)
Increase / (Decrease) in cash and cash equivalents		8,396	(44,360)
Cash and cash equivalents – beginning of year		160,712	205,072
Cash and cash equivalents – end of year		169,108	160,712
Cash and cash equivalents attributable to:			
Cash and cash equivalents of discontinued operations		25,775	26,633
Cash and cash equivalents of continuing operations		143,333	134,079
		169,108	160,712

See Note 11 for disclosures of non-cash investing activities arising in the year.
The accompanying notes are an integral part of these consolidated financial statements.

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32 Notes to Consolidated Financial Statements

For the year ended 31 December 2019
(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 Life Insurance Company Limited ("BF&M Life")	100	Bermuda
Island Heritage Insurance Company, Ltd. ("IHIC")	100	Cayman Islands
Insurance Corporation of Barbados Limited ("ICBL")	51.2	Barbados
Insurance Corporation of Barbados Limited / National Insurance Board Joint Venture ("ICBLJV")*	37.2	Barbados
Barr's Bay Properties Limited ("Barr's Bay")	60	Bermuda
BF&M (Canada) Limited ("BF&M Canada")	100	Canada
BF&M Brokers Limited ("BF&M Brokers")	100	Bermuda
BF&M Investment Services Limited ("BFMISL")	100	Bermuda
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
Hamilton Financial Limited ("Hamilton Financial")	100	St. Lucia
Hamilton Reinsurance Company Limited ("Hamilton")	100	Bermuda
Island Heritage Insurance Company, Ltd. NV.	100	Netherlands Antilles
Island Heritage Retirement Trust Company Ltd. ("IHRT")	100	Cayman Islands
Lawrence Boulevard Holdings Limited	100	Cayman Islands
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda

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

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 1 April 2020 the Board of Directors approved the consolidated 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 at fair value through profit or loss.

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

For the year ended 31 December 2019
(in thousands of Bermuda dollars)

Certain prior year amounts have been reclassified to conform to the current year presentation (see Notes 12 and 14).

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 consolidated 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 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 intangible 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 2N 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 21.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties providing collateral for mortgages, for purposes of evaluating possible impairment. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Notes 4A, 8 and 15.

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.

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 methods 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 methods and inputs. For bonds and fixed income 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.

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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 Group 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 for the period at the statement of financial position 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 functional currency of subsidiary entities in Barbados is the Barbados dollar. 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, for which the functional currency is the Canadian dollar.

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.

H. Fixed deposits and regulatory assets

Regulatory assets are held with Regulators as a legal requirement in order to provide services in the respective territories. Regulatory assets comprise deposits and fixed income securities. Refer to Note 2.I(i) for the classification, recognition and subsequent measurement of fixed income securities held as regulatory assets. 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.

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.

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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 by ICBL), 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, including properties pending sale associated with non-performing mortgages, 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 assets 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 and fund 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 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 by ICBL and other liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Included under other liabilities are accounts payable. Other remaining 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.

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.

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; (iii) renegotiation of terms or granting of concessions to the borrower; and (iv) significant deterioration in the fair value of the security underlying the financial asset.

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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 and fund financial assets classified as available-for-sale, in addition to the 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.

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

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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. Leases

i) The Group as a lessee

The Group leases various buildings, equipment and vehicles. Rental contracts are typically made for fixed periods (5 to 10 years for buildings, 3 to 6 years for equipment, and 2 to 5 years for vehicles) but may have extension options described further below. These leases do not include residual value guarantees or purchase options.

As indicated in Note 3A(i) below, the Group has adopted IFRS 16 – *Leases* from 1 January 2019, and has changed its accounting policy for leases where the Group is a lessee. Until 31 December 2018 the Group had leases that did not transfer substantially all the risks and rewards of ownership and were classified as operating leases. Payments made under operating leases were included within operating expenses in the consolidated statement of income.

From 1 January 2019, lease contracts that contain an identified asset for which the Group has the right to direct the use of the identified asset and obtain substantially all of the economic benefits through the period of use are recognised on the consolidated statement of financial position as a right-of-use asset within Property and Equipment and a corresponding liability within Other Liabilities at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: fixed payments, less any lease incentives receivable; variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date; lease payments for reasonably certain renewal options; and payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- because all third-party financing is to be arranged at the Group level, the use of the Group financing rates has been applied.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases with a lease term of 12 months or less and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of income.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The probability of renewal (or termination) is assessed using several factors such as: suitability and location of the asset; comparison to market rates; historical lease durations; costs and business disruption to replace the lease assets; and any other relevant factors.

Most extension options in equipment and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

ii) The Group as a lessor

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.

N. Intangible assets

Intangible assets include finite life intangible assets and goodwill. 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 2J (ii)). For assets that are not yet in use, 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 at cost less accumulated amortisation. Amortisation is calculated using the straight line basis over either 5 or 10 years, being the expected life of the business assumed. These assets include assets acquired on the acquisition of IHIC and BF&M Brokers and assets acquired from agents in the health, life, annuity and pension segment.

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 as 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.

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.

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.

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Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of the CGU, inclusive of goodwill and other intangibles 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.

O. 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 speciality insurance contracts. These contracts are all non-participating contracts.

Sections a) – d) outline the recognition and measurement of material financial statement line items related specifically to insurance contracts.

a) *Deferred 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. For policies written where there has been a total loss on sums insured, any deferred acquisition costs still reported in the consolidated statement of financial position will be immediately recognised in full in the consolidated statement of income.

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.

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. For reinsurance coverage that is exhausted before the policy end date, any deferred balances still recorded in the consolidated statement of financial position will be recognised in full immediately in the consolidated statement of income.

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,

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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, are 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 and would be recognised in the Consolidated Statement of Income at time of revision.

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 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 DAC. In performing these tests, current best estimates of future contractual cash flows, 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. 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.

Investment contracts with DPF's 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.

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Liabilities for investment contracts have been designated at FVTPL, except for certain contracts written by ICBL that are measured at amortised cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. 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(i) above. The impairment loss is calculated using the same method used for these financial assets.

P. Service contracts

Contracts issued by the Group that do not transfer significant insurance or financial risk from the customer are referred to as service contracts. These contracts are primarily for the provision of pension administration and investment management services. Fee income earned from these contracts is described in the Revenue Recognition accounting policy, Note 2U(iii). DAC arising from service contracts are amortised over the expected life of the contracts up to a maximum of 10 years. Where the cost of meeting the obligations of the contract exceed the economic benefits expected to be received under it, a provision is recognised.

Q. 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. Investment income earned by the segregated funds and expenses incurred by the segregated funds offset and are not separately presented in the consolidated statement of income and are disclosed in Note 19. Fee income earned on the management of these contracts is included in commission and other income in the consolidated statement of income.

R. 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.

S. 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.

T. Employee benefits

The Group operates various post-employment schemes, including defined benefit and defined contribution 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 of ICBL. 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 under which the entity receives services from employees as consideration for equity instruments of the Group (both equity, and equity based but cash 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 recognised in relation to such shares is reversed effective the date of forfeiture. Expenses previously recognised 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.

U. 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. For policies written where there has been a total loss on sums insured, any unearned premium still reported in the consolidated statement of financial position is immediately recognised in full in the consolidated statement of income.

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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 included within commission and other income in the consolidated statement of income. Revenue is recognised at the point in time when services are rendered. The majority of the revenue from service contracts is comprised of variable consideration and is recognised when it is highly probable that a significant reversal in the amount of the revenue recognised will not occur.

V. 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.

W. 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.

X. 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.

Y. Non-current assets and disposal groups classified as held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when a sale is highly probable and the assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of non-current assets and disposal groups. For a sale to be highly probable management are committed to sell the non-current asset or disposal group within one year from the date of classification as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Certain assets are specifically excluded from these measurement requirements. The assets in this category include financial assets, investment properties and insurance and reinsurance assets. These exempt assets are measured in accordance with the relevant accounting policies described within the Notes to these consolidated financial statements. The disposal group as a whole is then measured to the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognised as a reduction to the carrying amount of the non-current assets in the disposal group that are in scope of the measurement requirements.

Assets and liabilities in a disposal group classified as held for sale are presented separately in the consolidated statements of financial position.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation. The comparative consolidated statement of income and consolidated statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

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3. New and revised accounting standards

A. New and revised accounting standards adopted in 2019

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2019:

i) IFRS 16 – Leases (“IFRS 16”)

In January 2016, the IASB issued this standard which replaces IAS 17 - Leases and related interpretations. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases, with certain exemptions, be recognised on the statement of financial position. Lessor accounting remains substantially unchanged. The standard also requires more note disclosure for both lessees and lessors.

The Group adopted on a modified retrospective basis with no restatement of comparative information as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2M.

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.29%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also reassessed whether a contract is, or contains a lease at the date of initial application, for those leases which were previously assessed as insignificant but exceeded the low value threshold in the new IFRS 16 standard, which resulted in additional leases recognised at the date of initial application.

Measurement of lease liabilities

	2019
	\$
Operating lease commitments disclosed as at 31 December 2018	1,274
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(77)
Add: contracts reassessed as lease contracts	1,087
(Less): short-term leases not recognised as a liability	(56)
(Less): low-value leases not recognised as a liability	-
Add: adjustments as a result of a different treatment of extension and termination options	284
<hr/>	
Lease liability recognised as at 1 January 2019	<hr/> 2,512

Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liability recognised in the consolidated statement of financial position as at 1 January 2019.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- property and equipment – increase by \$2,512
- deferred tax assets – increase by \$nil
- other liabilities – increase by \$2,512

There was a \$nil net impact on retained earnings on 1 January 2019.

ii) Amendments to Other

The Group adopted IFRIC 23 – *Uncertainty over Income Tax Treatments* and amendments to IFRS for IAS 19 – *Employee Benefits and Annual Improvements 2015 - 2017 Cycle* for the amendments to IFRS 3 – *Business Combinations*, IFRS 11 – *Joint Arrangements*, IAS 12 – *Income Taxes*, and IAS 23 – *Borrowing Costs*, effective January 1, 2019. The adoption of these standards and amendments did not have a significant impact on the Groups' consolidated financial statements.

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B. New and revised accounting standards to be adopted in 2020

The following new and amended standards and interpretations were issued by the IASB and are expected to be adopted by the Group in 2020.

The Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework – The IASB issued a revised Conceptual Framework in 2018 and is effective on or after 1 January 2020. No changes were made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework and determine whether their accounting policies are still appropriate under the revised Framework. Adoption of the revised Framework is not expected to have a significant impact to the Group.

IFRS 3 – Business Combinations (“IFRS 3”) – Amendments to IFRS 3 were issued in October 2018 and are effective for business combinations occurring on or after 1 January 2020. The amendments clarify the definition of a business and provide a simplified assessment in determining whether a transaction represents a business combination or an acquisition of assets. Adoption of these amendments are not expected to have a significant impact to the Group.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) – In October 2018, The IASB issued amendments to IAS 1 and IAS 8 which are effective for annual periods beginning on or after 1 January 2020. The amendments are to clarify the definition of “material” and to improve consistency in its application. Adoption of these amendments are not expected to have a material impact to the Group.

C. New and revised accounting standards to be adopted in 2021 or later

The following new and amended standards and interpretations were issued by the IASB and are expected to be adopted by the Group in 2021 or later.

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.

The standard is effective for years beginning on or after 1 January 2018 and is to be applied either retrospectively or on a modified retrospective basis. The IASB issued amendments in October 2017 that are effective for annual periods beginning on or after 1 January 2019.

As allowed under IFRS 4, qualifying entities could elect an optional deferral of the standard until 1 January 2021. In March 2020, the IASB decided to further defer the effective date of IFRS 9 by one year to 1 January 2023, in line with the proposed deferral of the implementation of IFRS 17. The Group qualified and elected the deferral approach and will continue to apply IAS 39. The Group is assessing the impact of this standard.

IFRS 9 brings together all three aspects of the accounting for financial instruments project undertaken by the IASB: classification and measurement, impairment and hedge accounting. 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.

IFRS 17 – Insurance Contracts (“IFRS 17”) – This new standard was issued in May 2017 and supersedes IFRS 4 and related interpretations. Whereas IFRS 4 allows insurance entities to use their local Generally Accepted Accounting Principles when accounting for insurance contracts, IFRS 17 defines rules with the aim to increase the comparability of financial statements. The standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts.

In March 2020, the IASB decided to defer the effective date of IFRS 17 and the proposed extension of the IFRS 9 temporary exemption in IFRS 4 to 1 January 2023. The Group is assessing the impact of this standard and expects that it will have a significant impact on the Group's Consolidated Financial Statements.

IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) – Amendments to this standard were issued in October 2017 and clarify that an entity applies IFRS 9 – *Financial Instruments* to financial interests in an associate or joint venture to which the equity method is not applied. The amendments are effective starting 1 January 2019 and are to be applied retrospectively or prospectively. As the Group has deferred the adoption of IFRS 9, the Group will continue to apply IAS 39 – *Financial Instruments: Recognition and Measurement* to the long-term investments in associates and joint ventures until IFRS 9 is implemented. Adoption of these amendments are not expected to have a significant impact to the Group.

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4. Discontinued operations

In October 2019, Group management committed to a plan to dispose of its Barbados operation ("ICBL") following a strategic decision to place greater focus on the Group's core territories. An initial non-binding term sheet of the sale was signed in November 2019. Subsequent to year-end, due diligence is ongoing. The transaction is subject to regulatory approval and other closing conditions.

The Barbados operation was not previously classified as a discontinued operation. The comparative consolidated statement of income and OCI has been represented to show the discontinued operation separately from continuing operations.

The assets and liabilities of the disposal group are comprised almost entirely of financial assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The expected consideration for the sale less selling costs is \$17,900 as at 31 December 2019. The net book value of the Barbados operation as at 31 December 2019 is \$24,535. As such the non-current assets of the disposal group have been written down by \$6,635 to fair value as at 31 December 2019.

The composition of the assets and liabilities of the disposal group classified as held for sale included in the consolidated statement of financial position as at 31 December 2019 are as follows:

	2019 \$
Assets	
Cash and cash equivalents	25,775
Fixed deposits	6,834
Regulatory assets	740
Investments	69,077
Insurance receivables and other assets	13,062
Deferred acquisition costs	1,173
Reinsurance assets	22,466
Investment properties	15,687
Property and equipment	4,660
Tax recoverable	399
Deferred tax asset	175
Intangible assets	1,464
Restricted cash	13,863
Total assets of disposal group classified as held for sale	175,375
Liabilities	
Other liabilities	13,340
Retirement benefit obligation	677
Investment contract liabilities	40,262
Insurance contract liabilities	72,252
Total liabilities of disposal group classified as held for sale	126,531
Net assets and liabilities	48,844
Less: Minority interest	24,309
BF&M share of ICBL Net Assets	24,535
Less: Expected consideration less selling costs	17,900
Loss on write down of discontinued operation	6,635

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Results of discontinued operations

	2019	2018
	\$	\$
Total income	44,414	36,268
Total benefits and expenses	(43,836)	(41,716)
Net income / (loss) before income taxes	578	(5,448)
Income tax recovered	25	112
Shareholders' net income / (loss) for the year	603	(5,336)
Non-controlling interest	(300)	2,600
Net income / (loss) for the year	303	(2,736)
Loss on write down of discontinued operation	(6,635)	-
Loss from discontinued operations, net of tax	(6,332)	(2,736)

Cash flows from (used in) discontinued operation

	2019
	\$
Net cash from operating activities	6,313
Net cash used in investing activities	(4,614)
Net cash used in financing activities	(1,247)
Net cash flows for the year	452

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: (i) financial, including credit, liquidity, and market; and (ii) 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.

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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 issuer, 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;
- Transacting business with well-established reinsurance companies with strong credit ratings; and
- Transacting business with well-established financial institutions and diversification of holdings where possible.

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.

	2019* \$	2018 \$
Cash and cash equivalents	143,333	160,712
Fixed deposits and regulatory assets	23,258	26,559
Fixed income securities	530,861	530,300
Mortgages and loans	42,899	63,321
Insurance receivables and other assets	120,992	86,943
Reinsurance assets	514,101	145,115
Restricted cash	-	19,926
Total	1,375,444	1,032,876

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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:

	2019* \$	2019* \$	2018 \$	2018 \$
Assets held in:	Investments	Regulatory Assets	Investments	Regulatory Assets
Fixed income securities issued or guaranteed by:				
Financials	106,093	3,705	102,389	1,357
Government	38,030	8,132	78,332	8,266
U.S. Treasury and other agencies	62,400	352	54,539	339
Utilities and energy	88,365	106	88,534	102
Consumer staples and discretionary	84,964	809	75,824	402
Telecom	18,623	-	22,027	-
Computer technology products and services	16,106	422	15,747	102
Industrials and materials	42,140	-	41,838	-
Other	74,140	-	51,070	-
Total Fixed income securities	530,861	13,526	530,300	10,568

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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	2019* \$	2019* \$	2018 \$	2018 \$
Assets held in:	Investments	Regulatory Assets	Investments	Regulatory Assets
United States	472,066	3,037	398,767	1,196
Barbados	-	-	44,091	713
Canada	10,098	349	26,784	328
Northern Europe	15,099	1,593	20,835	1,106
Asia-Pacific	4,054	1,053	10,670	664
United Kingdom	14,320	418	12,722	-
Caribbean excluding Barbados	10,523	7,076	15,096	6,561
Other	4,701	-	1,335	-
Total Fixed income securities	530,861	13,526	530,300	10,568

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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

	2019* \$	2018 \$
Bermuda	42,899	56,982
Barbados	-	6,339
Total Mortgages and loans	42,899	63,321

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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 2019*

	AAA \$	AA \$	A \$	BBB \$	BB and lower \$	Not rated \$	Total \$
Cash and cash equivalents	29,936	1,538	73,345	37,934	-	580	143,333
Fixed deposits	-	-	-	-	-	-	-
Regulatory deposits	1,140	774	7,591	1,710	7,437	4,606	23,258
Fixed income securities ⁽¹⁾	66,760	149,455	249,165	65,481	-	-	530,861
Restricted cash	-	-	-	-	-	-	-
Total	97,836	151,767	330,101	105,125	7,437	5,186	697,452

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

⁽¹⁾Fixed income securities designated as either available for sale or loans and receivables and which have a credit rating below investment grade have a total carrying value of \$nil (fair value \$nil) as at 31 December 2019.

As at 31 December 2018

	AAA \$	AA \$	A \$	BBB \$	BB and lower \$	Not rated \$	Total \$
Cash and cash equivalents	19,426	4,766	58,879	70,913	-	6,728	160,712
Fixed deposits	-	-	-	9	287	3,806	4,102
Regulatory deposits	5,176	407	5,604	198	7,632	3,440	22,457
Fixed income securities ⁽¹⁾	64,143	137,769	215,315	66,737	41,453	4,883	530,300
Restricted cash	-	-	2,018	17,908	-	-	19,926
Total	88,745	142,942	281,816	155,765	49,372	18,857	737,497

⁽¹⁾Fixed income securities designated as either available for sale or loans and receivables and which have a credit rating below investment grade have a total carrying value of \$39,566 (fair value \$39,566) as at 31 December 2018 and primarily relate to the Group's holdings of Barbados Government debt securities.

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The Group's reinsurance panel consists of over 80 reinsurance companies, the majority of which are rated A- or better by A.M. Best. Any exceptions to this are approved by the Group Security Committee.

Past due or credit impaired mortgages and loans

Mortgages comprise first mortgages on real property situated in Bermuda. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975.

Mortgages are also held by the Barbados operation. 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:

	2019*	2018
	\$	\$
Not past due	31,542	46,124
Past due but not impaired:		
Past due less than 90 days	4,240	6,357
Past due 90 to 180 days	651	1,154
Past due 180 days or more	838	458
Impaired (net of impairment provisions)	5,628	9,228
Total Mortgages and loans	42,899	63,321

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

Of the \$42,899 of mortgages and loans held, \$9,560 are currently interest-only with future principal repayment schedules established.

Interest accrued on the impaired mortgages amounted to \$283 as at 31 December 2019 (2018 – \$251).

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:

	2019	2018
	\$	\$
At 1 January	8,527	6,246
Transfer to available for sale residential properties	(970)	(179)
Sale of foreclosed mortgage loans	-	-
Increase in impairment and provision allowances	4,962	2,460
Total at 31 December	12,519	8,527

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 \$48 and \$95 could be incurred if collection occurred within 18-24 months. A 10% drop in the collateral value supporting the mortgages on our credit watch list plus all foreclosed properties, would result in a further impairment charge of \$577 (\$1,242 – 2018).

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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 the 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 2019* is as follows:

	Within 1 year \$	2 to 3 years \$	4 to 5 years \$	Over 5 years \$	Total \$	Effective interest rate ranges
Policyholder loans	189	378	378	2,835	3,780	4.75% - 8.25%
Mortgages	6,764	4,995	4,472	22,888	39,119	5% - 9.00%
Regulatory deposits	10,079	1,741	5,273	6,165	23,258	0% - 4.95%
Fixed income securities	58,695	147,028	109,627	215,511	530,861	0.04% - 7.13%
Insurance receivables and other assets	120,992	-	-	-	120,992	0%
Total	196,719	154,142	119,750	247,399	718,010	
Percent of total	27.4%	21.5%	16.7%	34.5%	100.0%	

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

The maturity profile of financial assets at 31 December 2018 was as follows:

	Within 1 year \$	2 to 3 years \$	4 to 5 years \$	Over 5 years \$	Total \$	Effective interest rate ranges
Policyholder loans	177	354	354	2,654	3,539	4.75% - 8.25%
Mortgages	13,022	9,666	5,499	31,595	59,782	4.50% - 9.00%
Regulatory deposits	12,601	793	1,506	7,557	22,457	0% - 6.11%
Fixed income securities	57,792	124,657	141,759	206,092	530,300	0.08% - 9.75%
Insurance receivables and other assets	76,649	956	1,737	7,601	86,943	0%
Total	160,241	136,426	150,855	255,499	703,021	
Percent of total	22.8%	19.4%	21.5%	36.3%	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 2019* is as follows:

	Within 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Other liabilities	178,885	1,479	2,101	182,465
Investment contract liabilities	70,787	228,101	720	299,608
Insurance contract liabilities – net of reinsurance	61,726	639	193,290	255,655
Total	311,398	230,219	196,111	737,728

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale.

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The maturity profile of liabilities at 31 December 2018 was as follows:

	Within 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Other liabilities	124,231	-	-	124,231
Investment contract liabilities	103,701	223,053	512	327,266
Insurance contract liabilities – net of reinsurance	99,389	4,387	178,834	282,610
Total	327,321	227,440	179,346	734,107

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 \$3,178 / 3,009 (2018 – \$1,851 / 1,847) 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 10% increase/decrease in the value of the Group's equity and fund portfolio would increase/decrease the Group's comprehensive income by \$5,571 (2018 – \$3,364) and the Group's other components of equity by \$nil (2018 – \$480). The price risk sensitivity impact was calculated by using the ending balances in equity and funds at a 10% 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, 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. In the case of default by a reinsurer, this does not release the Group from its liability to the insured policyholders.
- 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 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.

	Gross \$	2019 Reinsurance \$	Net \$	Gross \$	2018 Reinsurance \$	Net \$
Bermuda	202,053	5,371	207,424	184,813	4,068	188,881
Bahamas	4,702	705	5,407	3,054	815	3,869
Barbados*	-	-	-	12,327	(33)	12,294
Other Caribbean & Latin America	3,828	-	3,828	3,073	-	3,073
Total	210,583	6,076	216,659	203,267	4,850	208,117

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale.

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 Group 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 insureds. 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, along with an analysis of experience, 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 also 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 a "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	2019 \$	Increase in liability 2018 \$
Mortality rate – life products	+3%	373	435
Mortality rate – annuity products	-3%	1,036	993
Morbidity – medical claims	+3%	2,466	2,694
Expenses	+10%	1,818	1,934
Termination rate	+10%	1,266	1,448

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 outflows by approximately \$3,239 (2018 – \$2,429). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash outflows by approximately \$3,239 (2018 – \$2,986).

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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.

Management evaluates the remaining reinsurance coverage available from the Group's Excess of Loss catastrophe treaties subsequent to claims activity related to catastrophic events and, in the current year, have concluded that the remaining available coverage should be sufficient to absorb potential adverse development on unsettled claims.

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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 benefits.

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 2019

Territory		Property \$	Motor \$	All Other \$	Total \$
Bermuda	Gross	6,549	4,517	2,863	13,929
	Net	1,906	4,436	1,468	7,810
Cayman/Other Caribbean	Gross	443,248	6,176	4,653	454,077
	Net	1,061	5,050	2,050	8,161
Barbados*	Gross	16	25	11	52
	Net	2	14	6	22
Total	Gross	449,813	10,718	7,527	468,058
	Net	2,969	9,500	3,524	15,993

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale. Remainder relates to non-Barbados operations

31 December 2018

Territory		Property \$	Motor \$	All Other \$	Total \$
Bermuda	Gross	939	4,740	1,926	7,605
	Net	5,052	1,576	8	6,636
Cayman/Other Caribbean	Gross	70,860	4,169	3,324	78,353
	Net	1,590	4,085	1,953	7,628
Barbados	Gross	1,086	36,408	9,994	47,488
	Net	180	23,963	6,778	30,921
Total	Gross	72,885	45,317	15,244	133,446
	Net	6,822	29,624	8,739	45,185

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 accident 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.

The Group has claims departments dealing with the mitigation of risks surrounding known exposures. These departments investigate and adjust claims with the assistance and advice of external loss adjusters. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments. The adequacy of the Group's general insurance claims provisions is ultimately overseen by the Board of Directors.

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Net loss development

Accident year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims cost:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
At the end of accident year	8,931	9,049	9,529	11,974	16,469	11,651	20,733	25,680	13,858	20,671	-
One year later	7,922	8,786	8,903	11,679	16,207	11,672	19,129	25,334	12,720	-	-
Two years later	7,765	8,565	8,585	10,950	15,627	11,217	18,724	24,233	-	-	-
Three years later	8,008	8,850	8,854	11,216	15,607	11,231	18,565	-	-	-	-
Four years later	7,918	9,199	8,922	11,052	15,714	11,155	-	-	-	-	-
Five years later	7,882	8,960	8,843	10,959	15,676	-	-	-	-	-	-
Six years later	7,901	8,949	8,710	10,932	-	-	-	-	-	-	-
Seven years later	7,858	8,697	8,733	-	-	-	-	-	-	-	-
Eight years later	7,858	8,961	-	-	-	-	-	-	-	-	-
Nine years later	7,858	-	-	-	-	-	-	-	-	-	-
Current estimates of cumulative claims	7,858	8,961	8,733	10,932	15,676	11,155	18,565	24,233	12,720	20,671	139,504
Cumulative payments to date	(7,833)	(8,718)	(8,723)	(10,662)	(15,611)	(10,661)	(17,370)	(22,269)	(10,209)	(12,012)	(124,068)
Net Liability recognised in the consolidated statement of financial position	25	243	10	270	65	494	1,195	1,964	2,511	8,659	15,436
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	557
Total reserve included in the consolidated statement of financial position	-	-	-	-	-	-	-	-	-	-	15,993

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 2019, the Group exceeded the minimum requirement.

Management monitors the adequacy of the Group's capital from the perspective of the Bermuda insurance regulations and the Bermuda Companies Act (1981) 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. 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 a statutory financial return, a capital and solvency return and audited financial statements prepared under Generally Accepted Accounting Principles. In addition, the Group submits a quarterly 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.

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The Act also requires the Group's Bermuda based insurance subsidiaries which write general business, 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. These insurance subsidiaries are prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus, as shown in the in the previous year statutory balance sheet, unless at least seven days before payment of the dividend it files with the BMA an affidavit that it will continue to meet its minimum capital requirement as described above. In addition, the companies must obtain the BMA's prior approval before reducing its total statutory capital, as shown in the previous financial year statutory balance, by 15% or more.

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 \$8,161 (2018 – \$8,060) 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 2019 (2018 – \$18,694) 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 throughout the Caribbean. As at 31 December 2019, the Group was in compliance with regulatory requirements in the various jurisdictions in which it operates, except for the Bahamas for which regulatory filings report an exception in respect of solvency compliance. This position is expected to be a temporary one while Hurricane Dorian claims are settled.

7. Segmental information

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

Health, life, annuity and pension

This operating segment includes group and individual health and accident, life, disability, annuity and pension products offered in Bermuda, Bahamas and Cayman.

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.

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. This operating segment is now classified as held for sale and discontinued operations, refer to Note 4.

Cayman Islands and other Caribbean operations

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

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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 net assets, 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 generally the same as those for the Group as a whole, adjustments are made at the Group level where differences exist. 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 2019 is as follows:

Segments	Health, life, annuity, and pension 2019 \$	Property and casualty 2019 \$	Real estate 2019 \$	Barbados operations 2019 \$	Cayman and other Caribbean operations 2019 \$	Corporate and other 2019 \$	Total 2019 \$
Income earned from							
external customers	127,112	29,989	2,897	-	43,342	141	203,481
Investment income	42,427	3,783	-	-	4,115	393	50,718
Total income	169,539	33,772	2,897	-	47,457	534	254,199
Insurance contracts							
benefits and expenses	118,952	7,672	-	-	10,803	-	137,427
Commission and acquisition expense	2,549	3,279	-	-	22,891	-	28,719
Operating expenses	19,553	11,767	935	-	9,701	6,654	48,610
Amortisation expense	2,918	5,297	985	-	582	669	10,451
Interest expense	-	6	-	-	35	60	101
Income taxes	-	-	-	-	133	86	219
Loss from discontinued operations	-	-	-	(6,032)	-	-	(6,032)
Non-controlling interest	-	-	891	300	-	(17)	1,174
Shareholders' net income	10,028	5,539	1,149	(6,332)	913	611	11,908
Impairment losses recognised in income*	4,972	-	-	-	-	-	4,972
Assets	1,675,181	138,438	31,159	175,375	694,190	13,211	2,727,554
Fixed asset & intangible expenditures	631	946	212	-	243	1,156	3,188
Liabilities	1,572,696	57,422	871	126,531	641,629	8,702	2,407,851

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2019 \$	Total 2019 \$
Mortgages	4,962	4,962
Residential properties	10	10
Available-for-sale investments	-	-
Investment properties	-	-
Total	4,972	4,972

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The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2018 is as follows:

Segments	Health, life, annuity, and pension 2018 \$	Property and casualty 2018 \$	Real estate 2018 \$	Barbados operations 2018 \$	Cayman and other Caribbean operations 2018 \$	Corporate and other 2018 \$	Total 2018 \$
Income earned from external customers	129,581	32,830	2,905	-	34,655	(35)	199,936
Investment income	(3,384)	719	-	-	244	103	(2,318)
Total income	126,197	33,549	2,905	-	34,899	68	197,618
Insurance contracts							
benefits and expenses	85,413	6,257	-	-	7,238	-	98,908
Commission and acquisition expense	2,431	3,950	-	-	18,987	-	25,368
Operating expenses	19,082	11,533	99	-	8,234	5,484	44,432
Amortisation expense	2,862	3,410	884	-	609	423	8,188
Interest expense	-	-	-	-	-	-	-
Income taxes	-	-	-	-	81	216	297
Loss from discontinued operations	-	-	-	(5,336)	-	-	-
Non-controlling interest	-	-	900	2,600	-	(5,201)	(1,701)
Shareholders' net income	14,864	8,300	1,330	(2,736)	(2,636)	1,115	20,237
Impairment losses recognised in income*	1,904	-	-	-	-	-	1,904
Assets	1,411,579	134,585	27,842	186,477	245,658	12,887	2,019,028
Fixed asset & intangible expenditures	1,257	3,295	664	1,630	133	120	7,099
Liabilities	1,319,028	51,380	672	129,693	194,102	8,810	1,703,685

*The table below summarises impairment losses by asset type:

Segments	Health, life, annuity, and pension 2018 \$	Total 2018 \$
Mortgages	1,938	1,938
Residential properties	(34)	(34)
Available-for-sale investments	-	-
Investment properties	-	-
Total	1,904	1,904

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.

The fair value of equity and fund 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.

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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 impaired 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 and commercial 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 December 2019. The Bermuda properties were externally valued as at 31 December 2017. 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 2.0(ii).

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 Groups 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 publically.
- 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 the 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 2019*	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash and cash equivalents	143,333	-	-	143,333
Fixed deposits	-	-	-	-
Regulatory deposits	10,085	13,173	-	23,258
Restricted cash	-	-	-	-
Financial assets at FVTPL				
Fixed income securities	57,828	472,035	-	529,863
Equities	31,511	24,200	-	55,711
Available for sale financial assets				
Equities	-	-	-	-
Residential properties	-	-	676	676
Segregated fund assets	888,692	139,358	-	1,028,050
Total assets measured at fair value	1,131,449	648,766	676	1,780,891
Liabilities				
Investment contract liabilities	-	299,608	-	299,608
Segregated fund liabilities	-	1,028,050	-	1,028,050
Total liabilities measured at fair value	-	1,327,658	-	1,327,658

* In 2019 assets and liabilities held by the Barbados operation have been reclassified to Assets/Liabilities Held for Sale.

31 December 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash and cash equivalents	160,712	-	-	160,712
Fixed deposits	4,102	-	-	4,102
Regulatory deposits	15,144	7,313	-	22,457
Restricted cash	19,926	-	-	19,926
Financial assets at FVTPL				
Fixed income securities	54,539	419,266	-	473,805
Equities	22,326	11,301	-	33,627
Available for sale financial assets				
Equities	4,064	737	-	4,801
Residential properties	-	-	1,531	1,531
Segregated fund assets	680,929	141,684	-	822,613
Total assets measured at fair value	961,742	580,301	1,531	1,543,574
Liabilities				
Investment contract liabilities	-	284,049	-	284,049
Segregated fund liabilities	-	822,613	-	822,613
Total liabilities measured at fair value	-	1,106,662	-	1,106,662

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The following table presents the change in Level 3 instruments (Residential properties held for sale):

	2019 \$	2018 \$
Opening balance	1,531	3,479
Transfers into Level 3	-	367
Purchases / (sales)	(765)	(2,006)
Gains / (losses) recognised in income	(90)	(309)
Total	676	1,531

Residential properties are assets carried at fair value on a recurring basis that are categorised as level 3. Transfers into level 3 represent previous mortgages and loans not measured at fair value. 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, 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 2019*	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	940	-	940
Loans and receivable financial assets				
Fixed income securities	-	-	-	-
Mortgages	-	-	39,068	39,068
Policyholder loans	-	-	3,780	3,780
Investment properties	-	-	49,500	49,500
Total assets not measured at fair value	-	940	92,348	93,288
Liabilities				
Investment contract liabilities	-	-	-	-
Total liabilities not measured at fair value	-	-	-	-

* In 2019 assets and liabilities held by the Barbados operation have been reclassified to Assets/Liabilities Held for Sale.

31 December 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	12,042	-	12,042
Loans and receivable financial assets				
Fixed income securities	-	-	45,688	45,688
Mortgages	-	-	59,814	59,814
Policyholder loans	-	-	3,539	3,539
Investment properties	-	-	65,200	65,200
Total assets not measured at fair value	-	12,042	174,241	186,283
Liabilities				
Investment contract liabilities	-	43,217	-	43,217
Total liabilities not measured at fair value	-	43,217	-	43,217

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9. Cash and cash equivalents

	2019* \$	2018 \$
Cash at bank and in hand	137,963	138,565
Short-term bank deposits	5,370	22,147
Total	143,333	160,712

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

10. Regulatory assets, fixed deposits and restricted cash

	2019* \$	2018 \$
Fixed deposits	-	4,102
Regulatory assets	23,258	22,457
Restricted cash	-	19,926
Total	23,258	46,485

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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

The 2018 fixed deposits had terms of 365 days with various independent financial institutions. The fixed deposits have various maturity dates, and earn interest of 0.01% - 3.0% per annum. For 2019, the fixed deposits have been reclassified as assets held for sale, refer to Note 4.

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. For 2019, the restricted cash has been reclassified as assets held for sale, refer to Note 4.

11. Investments

A. Carrying amount and fair value of investments

Investments comprise:

31 December	2019* Carrying amount \$	Fair value \$	2018 Carrying amount \$	Fair value \$
At fair value through profit and loss				
- Fixed income securities	529,861	529,863	473,806	473,805
- Equities	55,711	55,711	33,627	33,627
Held-to-maturity				
- Fixed income securities	1,000	940	12,045	12,042
Loans and receivables				
- Policyholder loans	3,780	3,780	3,539	3,539
- Mortgages	39,119	39,068	59,782	59,814
- Fixed income securities ⁽¹⁾	-	-	44,449	45,688
	629,471	629,362	627,248	628,515
Available for sale				
- Equities	-	-	4,801	4,801
- Residential properties	676	676	1,531	1,531
	676	676	6,332	6,332
Total	630,147	630,038	633,580	634,847

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

⁽¹⁾2018 Includes \$34,696 of Government of Barbados debt securities for which the carrying value approximates fair value.

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The fair value of the assets that pass the SPPI test but are neither managed or have their performance evaluated on a fair value basis are as follows:

	Total Fair Value \$	2019* SPPI \$	Non-SPPI \$	Total Fair Value \$	2018 SPPI \$	Non-SPPI \$
Held-to-maturity						
- Fixed income securities	940	940	-	12,042	12,042	-
Loans and receivables						
- Policyholder loans	3,780	3,780	-	3,539	3,539	-
- Mortgages	39,068	39,068	-	59,814	59,814	-
- Fixed income securities	-	-	-	45,688	45,688	-
Total	43,788	43,788	-	121,083	121,083	-

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

B. Investment income

	2019 \$	2018 (restated)* \$
Interest income		
Fixed income securities – at FVTPL	14,488	12,111
Mortgages and loans	3,519	3,915
Bank deposits and policyholder loans	2,021	980
	20,028	17,006
Dividend income		
Equities – at FVTPL	802	626
	802	626
Net realised gains / (losses) on sale of investments		
Equities – at FVTPL	159	101
Fixed income securities – at FVTPL	1,180	(2,791)
Residential properties – available for sale	(80)	-
	1,259	(2,690)
Change in fair value arising from		
Fixed income securities	29,168	(12,003)
Equities	6,585	(1,155)
Regulatory asset trusts	717	-
	36,470	(13,158)
Impairments and deductions		
Less: Impairment loss on investments	(4,962)	(1,905)
Less: Impairment loss on investment properties	(10)	-
Less: Crediting interest on guaranteed contracts for the account of customers	(2,869)	(2,197)
	(7,841)	(4,102)
Total Investment income	50,718	(2,318)

* See Note 4 to the consolidated financial statements

12. Insurance receivables and other assets

	2019* \$	2018 \$
Insurance receivables**	109,390	74,553
Accounts receivable	7,291	7,662
Accrued investment income	4,311	4,728
Total	120,992	86,943

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

** 2018 balances of \$8,477 of reinsurance assets were reclassified to insurance receivables.

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13. Deferred acquisition costs

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

	2019* \$	2018 \$
At 1 January	10,922	9,577
Adjustment for change in accounting policy	-	944
Revised balance as at 1 January	10,922	10,521
Transfer to held for sale assets	(1,118)	-
Recognised deferred acquisition costs	28,225	25,085
Amortisation charge through income	(26,415)	(24,684)
At 31 December	11,614	10,922

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

14. Reinsurance assets

Reinsurance assets are comprised of the following:

	2019* \$	2018 \$
Short-term insurance contracts:		
Claims reported and adjustment expenses**	370,730	73,436
Unearned premiums ceded	68,112	61,704
Claims incurred but not reported	81,335	14,825
Total short-term insurance contracts	520,177	149,965
Life and health insurance contracts:		
Participating		
Individual life	(2,358)	(1,956)
Non-participating		
Individual life	(4,952)	(4,750)
Individual and group annuities		
Group life	1,234	1,827
Health and accident	-	29
Total life and health insurance contracts	(6,076)	(4,850)
Total Reinsurance assets	514,101	145,115

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

** 2018 balances of \$8,477 of reinsurance assets were reclassified to insurance receivables.

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15. Investment properties

	2019* \$	2018 \$
Cost	33,269	57,096
Accumulated depreciation	(13,172)	(22,536)
Net book value	20,097	34,560
Year ended 31 December		
At beginning of year	34,560	35,760
Transfer to held for sale assets	(15,463)	-
Net additions and capital improvements	1,814	578
Disposals / retirements	(3,054)	-
Disposals / retirements – accumulated amortisation	3,054	-
(Impairment)	-	(712)
Depreciation	(814)	(1,066)
Closing net book value	20,097	34,560

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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. 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. The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings as a lessor.

At 31 December 2019, investment properties with a net book value of \$20,097 (2018 – \$34,560) were estimated to be valued at \$49,500 (2018 – \$65,200) on the basis of their estimated open market value for existing use. During the year ended 31 December 2019 certain investment properties' carrying values exceeded their market values, which resulted in impairment losses of \$nil (2018 – \$712).

Rental income generated from these investment properties during the year amounted to \$2,896 (2018 – \$4,004). Operating expenses incurred in support of generating rental income from investment properties was \$400 (2018 – \$1,269).

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16. Property and equipment

	Land and buildings \$	Furniture, equipment and leasehold improvements \$	Computer hardware \$	Motor vehicles \$	Total \$
At 1 January 2018					
Cost	24,920	9,987	8,775	874	44,556
Accumulated amortisation	(5,449)	(7,346)	(7,361)	(660)	(20,816)
Net book value	19,471	2,641	1,414	214	23,740
Year ended 31 December 2018					
Additions	1,074	180	789	50	2,093
Disposals	-	(99)	(333)	(175)	(607)
Disposals – accumulated amortisation	-	86	333	176	595
Amortisation charge	(374)	(622)	(673)	(79)	(1,748)
Effect of movement in exchange rates	-	(9)	(46)	-	(55)
Closing net book value	20,171	2,177	1,484	186	24,018
At 31 December 2018					
Cost	25,994	10,039	9,111	749	45,893
Accumulated amortisation	(5,823)	(7,862)	(7,627)	(563)	(21,875)
Net book value	20,171	2,177	1,484	186	24,018
Adjustment for change in accounting policy, see Note 3A(i)	2,058	180	-	274	2,512
Opening net book value after adjustment for change in accounting policy	22,229	2,357	1,484	460	26,530
Year ended 31 December 2019					
Transfer to held for sale assets – cost	(9,595)	(6,078)	(5,044)	(897)	(21,614)
Transfer to held for sale assets – accumulated amortisation	1,373	4,468	4,902	477	11,220
Additions	405	293	676	-	1,374
Disposals	(896)	(739)	(923)	-	(2,558)
Disposals – accumulated amortisation	896	739	907	-	2,542
Amortisation charge	(520)	(339)	(613)	(12)	(1,484)
Effect of movement in exchange rates	(3)	4	28	-	30
Closing net book value	13,889	705	1,417	28	16,040
At 31 December 2019					
Cost	17,966	3,712	3,901	126	25,705
Accumulated amortisation	(4,077)	(3,007)	(2,484)	(98)	(9,666)
Total net book value	13,889	705	1,417	28	16,039

B. Leases

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see Note 15.

i) Amounts recognised in the consolidated statement of financial position:	2019	1 January 2019
	\$	\$
Right-of-use assets		
Land and buildings	1,988	2,058
Furniture, equipment and leasehold improvements	107	180
Motor vehicles	-	274
	2,095	2,512
Lease liabilities		
Other liabilities	2,044	2,512
	2,044	2,512

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Additions to the right-of-use assets during the 2019 financial year were \$295.

ii) Amounts recognised in the consolidated statement of income:

	2019	2018
	\$	\$
Amortisation charge of right-of-use assets		
Land and buildings	192	-
Furniture, equipment and leasehold improvements	74	-
Motor vehicles	-	-
	266	-
Interest expense	101	
Expense relating to short-term leases (included in operating expenses)	56	-

The total cash outflow for leases in 2019 was \$370.

iii) The maturity profile of right-of-use liabilities at 31 December 2019 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Right-of-use liabilities	108	739	1,197	2,044

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 (recovered) expense comprises:

	2019	2018 (restated)*
	\$	\$
Current tax	227	415
Deferred tax	(8)	(118)
Total income tax expense (recovered)	219	297

* See Note 4 to the consolidated financial statements.

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

	2019	2018 (restated)*
	\$	\$
ICBL, BF&M Canada and IHIC's (loss) income before corporation tax	1,104	(1,876)
Tax calculated at effective rates of 2%, 13% and 32% respectively	588	(371)
Prior year adjustments	(28)	10
Effect of different tax rates on taxable income	-	-
Adjustments resulting from differences in actual & deferred tax rates	-	-
Income not subject to tax	(290)	-
Expenses not deductible for tax	-	665
Tax under accrual	(20)	(8)
Other	(31)	1
Total income tax (recovered) expense	219	297

* See Note 4 to the consolidated financial statements.

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B. Deferred taxes

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

	2019*	2018
	\$	\$
Deferred tax assets:		
Taxable losses carried forward	-	113
Net unearned premium	105	105
Deferred ceding commissions	18	18
Outstanding claims	208	208
Tax charge related to components of other comprehensive income	850	850
Deferred tax asset	1,181	1,294
Deferred tax liabilities:		
Net unearned premium	-	-
Accelerated tax depreciation	(6)	(60)
Net pension plan liability	-	20
Tax charge to components of other comprehensive income	-	-
Deferred acquisition cost	(429)	(429)
Deferred tax liability	(435)	(469)
Net deferred tax asset	746	825

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

C. Tax recoverable (payable)

	2019	2018
	\$	\$
Tax recoverable at beginning of year	1,597	3,588
Transfer to held for sale assets	(374)	-
Tax payments made / (received)	253	(1,817)
Current tax expense / (recovered) for year	(94)	(284)
Tax over / (under) accrual	-	(131)
Other	(4)	241
Total Tax recoverable at end of year	1,378	1,597
Tax payable at beginning of year	(161)	(133)
Tax payments made	128	372
Current tax expense for year	(133)	(351)
Tax over accrual	-	(53)
Other	-	4
Total Tax payable at end of year	(166)	(161)
Net tax recoverable	1,212	1,436

D. Impact to other comprehensive income / (loss)

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

	Before tax	2019	After tax
	\$	Tax (charge) / credit	\$
		\$	
Re-measurements of retirement benefit obligations	(519)	1	(518)
Investments classified as available for sale			
Fair value gains	482	-	482
Currency translation differences	194	-	194
Total Other comprehensive income	157	1	158

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	Before tax \$	2018 Tax (charge) / credit \$	After tax \$
Re-measurements of retirement benefit obligations	(1,090)	1,368	278
Investments classified as available for sale			
Fair value gains	44	-	44
Currency translation differences	(283)	-	(283)
Total Other comprehensive (loss) / income	(1,329)	1,368	39

18. Goodwill and intangible assets

The carrying amounts of intangible assets are as follows:

	Finite life				Goodwill \$	Total \$
	Customer relationships and contracts \$	Distribution channels \$	Brands \$	Software development cost \$		
At 1 January 2018						
Cost	13,157	14,500	2,737	53,545	10,328	94,267
Accumulated amortisation	(7,517)	(8,337)	(2,737)	(19,925)	(2,628)	(41,144)
Net book value	5,640	6,163	-	33,620	7,700	53,123
Year ended 31 December 2018						
Additions ⁽¹⁾	702	-	-	4,453	-	5,155
Disposals	-	-	-	(47)	-	(47)
Disposals – accumulated amortisation	-	-	-	23	-	23
Amortisation	(999)	(1,450)	-	(3,986)	-	(6,435)
Impairment losses	-	-	-	-	-	-
Closing net book value	5,343	4,713	-	34,063	7,700	51,819
At 31 December 2018						
Cost	13,859	14,500	2,737	57,951	10,328	99,375
Accumulated amortisation	(8,516)	(9,787)	(2,737)	(23,888)	(2,628)	(47,556)
Net book value	5,343	4,713	-	34,063	7,700	51,819
Year ended 31 December 2019						
Transfer to held for sale assets – cost	(5,087)	-	(697)	(4,259)	(2,628)	(12,671)
Transfer to held for sale assets – accumulated amortisation	5,087	-	697	1,465	2,628	9,877
Additions	-	-	-	1,716	-	1,716
Disposals	-	-	-	(43)	-	(43)
Disposals – accumulated amortisation	-	-	-	45	-	45
Amortisation	(1,017)	(1,451)	-	(5,685)	-	(8,153)
Impairment losses	-	-	-	-	-	-
Closing net book value	4,326	3,262	-	27,302	7,700	42,590
At 31 December 2019						
Cost	8,772	14,500	2,040	55,365	7,700	88,377
Accumulated amortisation	(4,446)	(11,238)	(2,040)	(28,063)	-	(45,787)
Total net book value	4,326	3,262	-	27,302	7,700	42,590
Remaining weighted average amortisation period in years	4.9 years	2.2 years	Nil years	4.9 years	n/a	

⁽¹⁾Additions include certain group health and life customer lists purchase from Bermuda agents with an amortisation period of 5 years.

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

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A. Goodwill

Goodwill represents the excess of the cost of IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition was allocated to the IHIC operation which is identified as a separate CGU.

Goodwill is assessed for impairment as per the accounting policy described in Note 2J, by comparing the carrying amount of the CGU against its recoverable amount. The recoverable amount of the CGU has been determined based on a value-in-use calculation, which is the discounted present value of future cash flows expected to be derived from the CGU. These calculations use pre-tax cash flow projections based on the 2020 financial business plan approved by management and estimates of cash flows for the subsequent six years to which a terminal value is then calculated. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. A 7 year cash flow period was used as this allowed a better reflection of some of the longer term recovery considerations post the significant hurricane events of 2016, 2017, and 2019. A discount rate of 11.1% was applied reflecting the nature of the environment for the CGU and the evolution of the business post acquisition. A terminal growth rate of 1.9% was used which represents the estimated long term nominal growth rate of the economy.

A sensitivity on assumptions was noted as follows:

	Impact to recoverable amount
10% decrease in net underwriting income	Reduction of \$6,900
100 basis point increase discount rate	Reduction of \$10,507

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 available for use, for evidence of impairment. The Group has determined there is no indication of impairment in 2019 (2018 – Nil). For significant software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in Note 2J(ii).

19. Segregated funds

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2019 and 2018 years.

Segregated funds – consolidated statements of changes in net assets

	2019 \$	2018 \$
Segregated funds assets – beginning of year	822,613	828,567
Additions:		
Pension contributions	119,243	123,085
Life insurance	2	-
Net realised and unrealised gains / (losses)	175,754	(51,119)
Total additions	294,999	71,966
Deductions:		
Payments to policyholders and their beneficiaries	(80,364)	(69,183)
Management fees	(9,198)	(8,737)
Total deductions	(89,562)	(77,920)
Net additions to segregated funds	205,437	(5,954)
Total Segregated funds assets – end of year	1,028,050	822,613

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20. Other liabilities

	2019*	2018
	\$	\$
Advances from reinsurers	80,028	39,751
Insurance balances payable	52,229	37,006
Payables and accrued expenses	25,533	25,641
Deferred commission income	15,213	14,229
Policyholder dividends payable	5,156	4,990
Lease liabilities	2,044	-
Dividends payable	2,262	2,614
Total	182,465	124,231

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale.

Insurance balances payable include amounts payable to reinsurers and brokers.

21. 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 \$1,129 (2018 – \$1,082) 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. The Barbados retirement medical plan has been reclassified to liabilities held for sale, refer to Note 4.

Cash contributions to the plan by the Group during 2019 were \$227 (2018 – \$245).

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. The Barbados defined benefit pension plan has been reclassified to liabilities held for sale, refer to Note 4.

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 2019 were \$nil (2018 – \$933).

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 2019.

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The following table provides a summary of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2019 and 2018:

	2019*	2018
	\$	\$
Defined benefit pension plan	(1,534)	(1,234)
Medical benefit plan	2,975	3,084
Total Retirement benefit obligations	1,441	1,850

* In 2019 assets and liabilities held by the Barbados operation have been reclassified to Assets/Liabilities Held for Sale.

	Defined benefit pension plans		Medical benefit plans	
	2019	2018	2019	2018
	\$	\$	\$	\$
Changes in Benefit Obligation				
Balance – beginning of year	52,693	56,756	3,084	3,844
Transfer to held for sale assets & liabilities	(17,773)	-	(200)	-
Current service cost	269	480	-	-
Interest expense	1,262	2,314	104	120
Past service cost and gains and losses on settlements	-	-	-	-
Actuarial (gains) and losses due to changes in:				
Experience	(178)	(76)	(33)	(448)
Economic assumption changes	3,804	(1,873)	247	(187)
Changes in asset ceiling, excluding amounts included in interest expense	121	(1,977)	-	-
Benefits paid	(1,988)	(2,931)	(227)	(245)
Total Benefit Obligation – end of year	38,210	52,693	2,975	3,084

	Defined benefit pension plans		Medical benefit plans	
	2019	2018	2019	2018
	\$	\$	\$	\$
Change in Plan Assets				
Fair value – beginning of year	53,927	57,403	-	-
Transfer to held for sale assets & liabilities	(16,995)	-	-	-
Interest income	4,846	1,040	-	-
Return on plan assets, excluding amounts included in interest income	-	(2,462)	-	-
Employer contributions	-	933	227	245
Plan expenses	(46)	(56)	-	-
Benefits paid	(1,988)	(2,931)	(227)	(245)
Total Fair value of plan assets – end of year	39,744	53,927	-	-
Net (benefit) liability recognised in the Consolidated Statement of Financial Position	(1,534)	(1,234)	2,975	3,084

Amounts recognised in respect of these plans:

	Defined benefit pension plans		Medical benefit plans	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net benefit cost recognised in Consolidated Statement of Income				
Current service cost	269	480	-	-
Interest expense / (income)	1,262	1,163	104	106
Expected return on plan assets	(1,346)	(1,190)	-	-
Administrative expense	46	54	-	-
Past services cost and gains and losses	-	-	-	-
Total Net benefit cost	231	507	104	106

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	Defined benefit pension plans		Medical benefit plans	
	2019 \$	2018 \$	2019 \$	2018 \$
Re-measurement effects recognised in OCI				
Return on plan assets (excluding amounts included in interest income)	(3,499)	150	-	-
Actuarial gains and losses due to change in:				
Experience	(178)	282	(33)	(448)
Financial assumptions	3,804	(1,845)	247	(199)
Adjustments for restrictions on the defined benefit asset	121	(1,410)	-	-
Total Re-measurements effects	248	(2,823)	214	(647)

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

	Bermuda \$	Barbados* \$	Total \$
At 31 December 2019			
Present value of obligation	41,185	-	41,185
Fair value of plan assets	(39,744)	-	(39,744)
Total	1,441	-	1,441

* In 2019 assets and liabilities held by the Barbados operation have been reclassified to Assets/Liabilities Held for Sale.

	Bermuda \$	Barbados \$	Total \$
At 31 December 2018			
Present value of obligation	37,805	17,972	55,777
Fair value of plan assets	(36,932)	(16,995)	(53,927)
Total	873	977	1,850

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

	2019			2018		
	Quoted \$	Unquoted \$	Total \$	Quoted \$	Unquoted \$	Total \$
Equity and fund instruments	15,858	-	15,858	13,626	-	13,626
Fixed income instruments	20,293	-	20,293	20,448	7,035	27,483
Real estate	-	2,089	2,089	-	2,457	2,457
Other	-	1,504	1,504	-	10,361	10,361
Total Asset allocation	36,151	3,593	39,744	34,074	19,853	53,927

Pension and medical plan assets include the Group's ordinary shares with a fair value of \$1,148 (2018 – \$907).

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 result 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.

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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 2019 and 2018 are:

	Defined benefit pension plans		Medical benefit plans	
	2019 %	2018 %	2019 %	2018 %
Bermuda				
Benefit cost during the year:				
Discount rate	2.75	3.75	2.75	3.75
Compensation increase	1.25	2.25	-	-
Medical claims inflation	-	-	4.5	4.5
Defined benefit obligation at end of year:				
Discount rate	2.75	3.75	2.75	3.75
Compensation increase	2.25	3.25	-	-
Medical claims inflation	-	-	4.5	4.5

	Defined benefit pension plans		Medical benefit plans	
	2019 %	2018 %	2019 %	2018 %
Barbados				
Benefit cost during the year:				
Discount rate	*	7.75	*	7.75
Compensation increase	*	6.00	*	-
Medical claims inflation	-	-	*	6.00
Defined benefit obligation at end of year:				
Discount rate	*	7.75	*	7.75
Compensation increase	*	2.50	*	-
Medical claims inflation	*	-	*	6.00

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held For Sale.

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	
	2019 In years	2018 In years	2019 In years	2018 In years
Bermuda				
Male	20.30	20.23	20.23	20.23
Female	22.42	22.38	22.42	22.38
Barbados*				
Male	*	20.23	*	20.23
Female	*	22.38	*	22.38

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale.

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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% in either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plans		Medical benefit plans	
	Increase 2019 \$	Decrease 2019 \$	Increase 2019 \$	Decrease 2019 \$
Discount rate	4,031	4,912	247	286
Compensation increase / medical claims inflation	143	135	264	233
Average life expectancy	1,244	2,189	186	180

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.

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 31 December 2020 are \$225.

The weighted average duration of the defined benefit obligation is 12.11 years. The weighted average duration of the medical plan obligation is 8.90 years.

Future benefit payments

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

	2020 \$	2021 \$	2022 \$	2023 \$	2024-2035 \$
Defined benefit pension	2,143	2,227	2,372	2,387	30,248
Medical benefit plan	225	220	215	210	2,004
Total future payments	2,368	2,447	2,587	2,597	32,252

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22. Investment contract liabilities

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

Composition of investment contract liabilities	2019*	2018
	\$	\$
Guaranteed interest pension		
Bermuda	297,563	282,493
Barbados*	-	43,217
Term certain annuities	2,045	1,556
Total Investment contract liabilities	299,608	327,266

* In 2019 liabilities held by the Barbados operation have been reclassified to Liabilities Held for Sale.

Investment contract liabilities carried at amortised cost	2019	2018
	\$	\$
At 1 January	43,217	53,869
Transfer to held for sale liabilities	(43,217)	-
Pension contributions	-	2,334
Net investment (loss) / income	-	(6,991)
Benefits paid	-	(5,588)
Management fees deducted	-	(407)
Total at 31 December	-	43,217

Investment contract liabilities carried at fair value	2019	2018
	\$	\$
At 1 January	284,049	281,369
Pension contributions	33,370	39,292
Net investment (loss) / income	12,039	(1,437)
Benefits paid	(25,272)	(26,268)
Management fees deducted	(14)	(30)
Net transfers out	(4,564)	(8,877)
Total at 31 December	299,608	284,049

23. Insurance contract liabilities

A. Composition of insurance contract liabilities

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Short term insurance contracts:						
Claims reported and loss adjustment expenses	381,462	(370,730)	10,732	107,833	(73,436)	34,397
Unearned premiums	91,115	(68,112)	23,003	91,012	(61,704)	29,308
Claims incurred but not reported	86,596	(81,335)	5,261	25,613	(14,825)	10,788
Total short-term insurance contracts	559,173	(520,177)	38,996	224,458	(149,965)	74,493
Life and health insurance contracts:						
Participating						
Individual life	34,668	2,358	37,026	30,864	1,956	32,820
Non-participating						
Individual life	24,067	4,952	29,019	21,583	4,750	26,333
Individual and group annuities	129,666	-	129,666	120,875	-	120,875
Group life	6,102	(1,234)	4,868	12,230	(1,827)	10,403
Health and accident	16,080	-	16,080	17,715	(29)	17,686
Total life and health insurance contracts	210,583	6,076	216,659	203,267	4,850	208,117
Total Insurance contract liabilities	769,756	(514,101)	255,655	427,725	(145,115)	282,610

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B. Changes in short term insurance contract liabilities

	Gross \$	2019 Reinsurance \$	Net \$	Gross \$	2018 Reinsurance \$	Net \$
At 1 January						
Claims and adjustment expenses	107,833	(73,436)	34,397	437,104	(397,738)	39,366
Claims incurred but not reported	25,613	(14,825)	10,788	187,563	(176,271)	11,292
Total at 1 January	133,446	(88,261)	45,185	624,667	(574,009)	50,658
Transfer to held for sale liabilities	(47,438)	16,545	(30,893)	-	-	-
Cash paid for claims settled in year	(211,439)	194,562	(16,877)	(455,989)	425,280	(30,709)
Increase in liabilities:						
Arising from current-year claims	597,720	(579,153)	18,567	32,556	(8,204)	24,352
Arising from prior-year claims	(4,231)	4,242	11	(67,788)	68,672	884
Total at 31 December	468,058	(452,065)	15,993	133,446	(88,261)	45,185
Claims and adjustment expenses	381,462	(370,730)	10,732	107,833	(73,436)	34,397
Claims incurred but not reported	86,596	(81,335)	5,261	25,613	(14,825)	10,788
Total at 31 December	468,058	(452,065)	15,993	133,446	(88,261)	45,185

The fair value of the net provision for claims and adjustment expenses of \$15,993 (2018 – \$45,185) is \$15,209 (2018 – \$44,767). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

C. Unearned premium liability

	Gross \$	2019 Reinsurance \$	Net \$	Gross \$	2018 Reinsurance \$	Net \$
At 1 January	91,012	(61,704)	29,308	83,362	(54,934)	28,428
Transfer to held for sale liabilities	(16,021)	7,493	(8,528)	-	-	-
Premium written during the year	211,240	(169,896)	41,344	130,209	(113,559)	16,650
Premium earned during the year	(195,116)	155,995	(39,121)	(122,559)	106,789	(15,770)
Total at 31 December	91,115	(68,112)	23,003	91,012	(61,704)	29,308
Transfer to discontinued operations	-	-	-	(62)	612	550
Movement during the year, net of acquisition costs	(16,123)	13,908	(2,215)	(7,578)	6,150	1,428

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D. Changes in life and health insurance contract liabilities

	Gross \$	2019 Reinsurance \$	Net \$	Gross \$	2018 Reinsurance \$	Net \$
Provision for policy benefits	196,471	4,850	201,321	205,838	5,240	211,078
Claims payable	6,099	-	6,099	1,775	-	1,775
Provision for participating policyholders	697	-	697	510	-	510
Life and health insurance contract liabilities – 1 January	203,267	4,850	208,117	208,123	5,240	213,363
Change in provision for policy benefits:						
Transfer to held for sale liabilities	(12,327)	33	(12,294)	-	-	-
Aging and changes in balances on in-force policies	3,340	197	3,537	3,898	30	3,928
Changes in assumptions:						
Investment returns	16,470	980	17,450	(13,048)	(454)	(13,502)
Mortality	1,017	41	1,058	(388)	36	(352)
Lapse	102	4	106	588	15	603
Expense	(274)	(14)	(288)	(766)	(28)	(794)
Premium payment patterns	-	-	-	-	-	-
Other	(662)	(27)	(689)	224	6	230
Other changes	299	12	311	125	5	130
	7,965	1,226	9,191	(9,367)	(390)	(9,757)
Provision for policy benefits	204,436	6,076	210,512	196,471	4,850	201,321
Claims payable	5,062	-	5,062	6,099	-	6,099
Provision for participating policyholders	1,085	-	1,085	697	-	697
Total life and health insurance contract liabilities – 31 December	210,583	6,076	216,659	203,267	4,850	208,117

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 2019*				
Participating				
Individual life	33,515	2,017	1,494	37,026
Non-participating				
Individual life	21,098	5,739	2,182	29,019
Individual and group annuities	101,715	27,668	283	129,666
Group life	1,658	451	2,759	4,868
Health and accident	2	-	16,078	16,080
Total	157,988	35,875	22,796	216,659

* In 2019 assets held by the Barbados operation have been reclassified to Assets Held for Sale.

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For the year ended 31 December 2019
(in thousands of Bermuda dollars)

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	Fixed income securities \$	Mortgages and loans \$	Cash \$	Total \$
31 December 2018				
Participating				
Individual life	29,180	1,894	1,746	32,820
Non-participating				
Individual life	18,801	5,880	1,652	26,333
Individual and group annuities	85,401	35,273	201	120,875
Group life	3,862	1,646	4,895	10,403
Health and accident	78	330	17,278	17,686
Total	137,322	45,023	25,772	208,117

24. Equity

A. Share capital

	2019 \$	2018 \$
Authorised – 10,000,000 (2018 – 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	8,923	8,827

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:

	2019 # of shares	2018 # of shares
At 1 January	8,826,578	8,847,036
Shares issued under the employee share purchase plan	29,096	1,849
Shares issued under the equity incentive plan	14,190	788
Share grants issued under the equity incentive plan	79,491	-
Share grants forfeited under the equity incentive plan	(26,818)	(23,095)
Total at 31 December	8,922,537	8,826,578

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 2019, the Group had repurchased 230,775 shares for a total of \$4,217. The repurchased shares are held as treasury shares until reissued or cancelled. The current programme expires in May 2020 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.

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.

	2019 \$	2019 # of shares	2018 \$	2018 # of shares
At 1 January	325	20,000	2,031	100,076
Acquisition of shares through share buyback	843	51,332	325	20,000
Shares issued under the employee share purchase plan	-	-	(426)	(20,665)
Shares issued under the equity incentive plan	-	-	(1,605)	(79,411)
Total at 31 December	1,168	71,332	325	20,000

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(in thousands of Bermuda dollars)

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

During 2019, 29,096 (2018 – 22,514) shares were purchased by employees of the Group. The fair value of the shares was credited to either share capital or treasury shares depending on the source of the shares, and share premium. The discount was charged to compensation expense.

Source of shares	Shares Issued #	Shares Capital \$	Treasury Shares \$	Share Premium \$	Compensation Expense \$
2019					
Share capital	29,096	29	-	434	69
Treasury shares	-	-	-	-	-
Total	29,096	29	-	434	69
2018					
Share capital	1,849	2	-	29	5
Treasury shares	20,665	-	426	(73)	53
Total	22,514	2	426	(44)	58

G. Shares held by the group's defined benefit pension scheme

As at 31 December 2019, 55,992 (2018 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

25. Share based payments

Restricted share grants and restricted unit grants

During the year 79,491 (2018 – 67,481) common shares and 8,600 units (2018 – 14,600) were issued to certain 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 \$1,401 (2018 – \$1,395) 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 \$995 (2018 – \$981). The carrying amount of the liability in respect of restricted unit grants, which is included in other liabilities, is \$478 (2018 – \$785).

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

Restricted share and unit grants vesting	# of shares	# of share units
04 April 2020	56,385	7,644
01 April 2021	54,176	7,690
01 April 2022	74,091	8,600
Total	184,652	23,934

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26. Commission and other income

The following tables presents commission earned from reinsurers and fee income from service contracts by reporting segments as disclosed in Note 7.

	Health, life annuity, and pension 2019 \$	Property and casualty 2019 \$	Cayman and Other Caribbean operations 2019 \$	Corporate and Other 2019 \$	Total 2019 \$
Commission and other income					
Commission income from insurance contracts	1	15,088	18,597	1	33,687
Fees earned from management of insurance contracts	524	-	-	-	524
Fee income from service contracts:					
Pension administration asset based income	8,315	-	-	-	8,315
Administrative services and other fees	767	60	819	1,599	3,245
Total commission and other income	9,607	15,148	19,416	1,600	45,771

	Health, life annuity, and pension 2018 \$	Property and casualty 2018 \$	Cayman and Other Caribbean operations 2018 \$	Corporate and Other 2018 \$	Total 2018 (restated)* \$
Commission and other income					
Commission income from insurance contracts	(3)	16,754	16,052	-	32,803
Fees earned from management of insurance contracts	1,411	-	-	-	1,411
Fee income from service contracts:					
Pension administration asset based income	7,438	-	-	-	7,438
Administrative services and other fees	795	412	-	1,340	2,547
Total commission and other income	9,641	17,166	16,052	1,340	44,199

* See Note 4 to the Consolidated Financial Statements.

27. Insurance contracts benefits and expenses

	2019 \$	2018 \$
Gross life and health claims and benefits paid	103,467	100,516
Reinsurance recoveries	(6,000)	(4,329)
Change in insurance contract liabilities	20,292	(10,384)
Change in reinsurance assets	1,193	(390)
Total life and health policy benefits	118,952	85,413
Gross short term claim and adjustment expenses paid	211,336	437,396
Reinsurance recoveries	(194,562)	(411,776)
Change in insurance contract liabilities	382,050	(487,948)
Change in reinsurance assets	(380,349)	475,823
Total short term claim and adjustment expenses	18,475	13,495
Total Insurance contracts benefits and expenses	137,427	98,908

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28. Operating expenses

	2019	2018 (restated)*
	\$	\$
Wages and salaries	28,088	26,728
Professional and consulting fees	3,797	3,583
Post retirement benefit costs	1,473	1,506
IT maintenance contracts	3,968	3,040
Advertising and business development	2,256	2,179
Bank charges and foreign currency purchase tax	2,227	1,944
Office rent, building and utilities costs	1,858	1,964
Share expense	995	981
Compliance, legal and regulatory	1,746	1,453
Office and administration expenses	701	713
Bad debt	563	(72)
Travel	768	606
Memberships and subscriptions	164	172
Training and development	232	349
Other	(226)	(714)
Total operating expenses	48,610	44,432

* See Note 4 to the Consolidated Financial Statements.

29. Components of accumulated other comprehensive loss

	2019	2018
	\$	\$
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of retirement benefit obligation		
Balance – beginning of year	(3,365)	(5,116)
Re-measurement of retirement benefit obligation – continuing operations	(462)	3,470
Re-measurement of retirement benefit obligation – discontinued operations	(56)	(3,192)
Non-controlling interest	38	1,473
Balance – end of year	(3,845)	(3,365)
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	(1,568)	(1,591)
Changes in the fair value of available for sale financial assets – discontinued operations	482	44
Non-controlling interest	(237)	(21)
Balance – end of year	(1,323)	(1,568)
Currency translation differences		
Balance – beginning of year	(535)	(252)
Unrealised foreign exchange gains / (losses) on translation of foreign operations	194	(283)
Balance – end of year	(341)	(535)
Total	(5,509)	(5,468)

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30. Earnings per share

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

	2019			2018		
	Income \$	# of weighted average shares	per share amount \$	Income \$	# of weighted average shares	per share amount \$
Net earnings	11,908			20,237		
Basic earnings per share:						
Income available to common shareholders	11,908	8,830,802	1.35	20,237	8,797,342	2.30
Effect of dilutive securities:						
Share options	-	-	-	-	-	-
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	11,908	8,830,802	1.35	20,237	8,797,342	2.30
Income available to common shareholders – continuing operations	18,240	8,830,802	2.07	22,973	8,797,342	2.61
Income available to common shareholders – discontinued operations	(6,332)	8,830,802	-0.72	(2,736)	8,797,342	-0.31

There are no share options granted to employees of the Group and thus there is no dilutive or anti-dilutive impact on earnings per share.

31. Related parties

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 37% of the Group'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

	2019 \$	2018 \$
Sales of insurance contracts and pension services:		
- Key management	194	216
Purchase of services:		
- Key management	-	-

B. Key management compensation

The following table shows compensation to key management:

	2019 \$	2018 \$
Salaries and other short-term employee benefits	3,397	2,642
Post-employment benefits	104	112
Share based payments	543	702
Total	4,044	3,456

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 2019 were 354,046 (2018 – 361,372) 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 25.

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C. Loans to related parties

Loans are extended to key management of the Group (and their families) and to companies related to key management. 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.

	2019 \$	2018 \$
At 1 January	327	337
Adjustment for changes in key management	-	-
Loans extended (repayments received)	(31)	(31)
Interest charges	20	21
Total at 31 December	316	327

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.

32. 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	
	2019 \$	2018 \$	2019 \$	2018 \$
Total assets	181,934	185,952	27,103	23,825
Total liabilities	128,542	131,030	1,912	834
Total Net assets	53,392	54,922	25,191	22,991

Summarised comprehensive income

	ICBL		Scarborough / Barr's Bay	
	2019 \$	2018 \$	2019 \$	2018 \$
Net premium earned	31,492	31,174	-	-
Rental income	1,095	1,100	3,444	3,451
Total income	44,414	36,268	3,444	3,451
Total benefits & expenses	43,836	41,716	1,216	1,202
Income / (loss) before taxes	578	(5,448)	2,228	2,249
Income taxes	25	112	-	-
Net income / (loss) after taxes	603	(5,336)	2,228	2,249
Other comprehensive income / (loss)				
Items that will not be reclassified to profit or loss	(56)	(3,192)	(28)	208
Items that may be subsequently reclassified to profit or loss	482	44	-	-
Total Comprehensive income / (loss)	1,029	(8,484)	2,200	2,457
Total Income attributable to non-controlling interest	300	(2,600)	891	900

Summarised statement of cash flow

	ICBL		Scarborough / Barr's Bay	
	2019 \$	2018 \$	2019 \$	2018 \$
Net cash generated from operating activities	6,313	13,514	342	2,606
Net cash generated from (used in) investing activities	(4,614)	(2,886)	1,686	(843)
Net cash used in financing activities (including dividends to parents)	(2,557)	(3,568)	-	-
Net increase (decrease) in cash and cash equivalents	(858)	7,060	2,028	1,763
Cash and cash equivalents at beginning of year	26,633	19,573	3,755	1,992
Cash and cash equivalents at end of year	25,775	26,633	5,783	3,755

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33. 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 2020 and 2021. The future minimum lease payments receivable are as follows:

	2019 \$	2018 \$
No later than 1 year	2,634	3,363
Later than 1 year and no later than 5 years	1,750	1,562
Later than 5 years	-	-
Total	4,384	4,925

B. Commitments

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. \$341 is payable in 2020 to fulfil contracts which have fixed and determinable amounts. For years 2021 and 2022, the Group has committed in principle to making donations to various local charities. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. The Group also expects significant capital expenditures related to renovation work on its investment properties. This is estimated at \$2.9 million.

As at 31 December 2019, the Barbados operation classified as discontinued operations has unfunded loan commitments of approximately \$1.5 million.

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.

34. Subsequent events

A. Dividends

On 28 February 2020, the Group, declared a dividend to be paid to shareholders of record at 31 March 2020. The dividend will be paid on 15 April 2020. \$2,122 will be paid out in total, representing a \$0.24 per share dividend paid on 8,839,834 shares.

B. Covid-19

Global public health issues, such as the Novel Coronavirus – Covid-19, which spread during Q1-2020 could have significant longer term consequences on the global economy and may impact the operations and strategic plans of the Group as well as the Group's 2020 consolidated financial statements. Potential impact to the 2020 consolidated financial statements, may include the estimates, judgments, and assumptions as disclosed in Note 2B(ii) of the Group's 2019 consolidated financial statements.

The impact on our business is dependent on the ultimate spread and severity of the virus as well as how long restrictive measures taken by governments will last, and the resultant impact on the economy. Measures will be taken as appropriate by the Group to preserve capital adequacy, by (i) delaying reinvestment of investment portfolio maturities, and (ii) delaying and or reducing non-business critical capital expenditure and operating costs. Furthermore, the Group holds no third party bank debt, nor has it provided any third party guarantees.

The Group believes that its capital adequacy has sufficient margin to absorb the possible financial impacts of Covid-19.

BF&M General Insurance Company Limited

Directors

Nancy L. Gosling, B.Comm., C.G.A. LL.D., Chairman
Gregory D. Haycock, FCA, J.P., Deputy Chairman
Ian Campbell, B.Sc. FCA
Abigail Clifford, B.A., M.Sc.
Christopher Harris, B.Sc. (Hons.), MBA, CFA
Paul C. J. Markey
R. John Wight, FCPA, FCA, CPCU

Officers

R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Ian Campbell, B.Sc. FCA, Executive Vice President, Property and Casualty
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Stephanie Hanson, LL.B. (Hons.), Group General Counsel and Corporate Secretary
Alissa Matthews, CPA, CA, Chief Financial Officer, P&C
Patrick Neal, B.A., CPCU, Senior Vice President, Chief Underwriting Officer

BF&M Life Insurance Company Limited

Directors

Gordon Henderson, B.A. (Hons.), LL.B., Chairman
L. Anthony Joaquin, FCA, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Catherine S. Lord, B.Sc., J.P.
Conor O'Dea, FCA
R. John Wight, FCPA, FCA, CPCU

Officers

R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Stephanie Hanson, LL.B. (Hons.), Group General Counsel and Corporate Secretary
Jody Power, CPA, CA, CFA, Vice President Finance

BF&M Investment Services Limited

Directors

Richard D. Spurling, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman
Abigail Clifford, B.A., M.Sc.
Christopher Harris, B.Sc. (Hons.), MBA, CFA

Officers

R. John Wight, FCPA, FCA, CPCU, Group Chairman and Chief Executive Officer
Lily Chen, CPA, CA, Group Chief Financial Officer
Abigail Clifford, B.A., M.Sc., Group Chief Operating Officer
Miguel DaPonte, C.F.A., M.B.A., Senior Vice President
Stephanie Hanson, LL.B. (Hons.), Group General Counsel and Corporate Secretary

Insurance Corporation of Barbados Limited

Directors

R. John Wight, FCPA, FCA, CPCU, Chairman
Juanita Thorington-Powlett, M.B.A., F.C.I.S., Vice Chairman
Goulbourne Alleyne, F.C.I.I., M.B.A.
Sir Paul Altman, G.C.M., BCH
Gordon Henderson, B.A. (Hons.), LL.B.
Jennifer Hunte, F.C.G.A., F.C.I.S.
Toni Jones, LL.B. (Hons.)
Geoffrey Scott, B.Sc., M.B.A.

Officers

Geoffrey Scott, B.Sc., M.B.A., Chief Executive Officer
Goulbourne Alleyne, F.C.I.I., M.B.A., Chief Underwriting Officer
Valentina J.G.R. Blackman, LL.B. (Hons.), LL.M., Chief Legal Officer
Oliver Jordan, M.B.A., FCA, CPA, CFE, Chief Operating Officer
Glyne Pilgrim, FCA, CPA, CGA, Chief Financial Officer

Island Heritage Insurance Company, Ltd.

Directors

Conor O'Dea, FCA, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman
Ian Campbell, B.Sc. FCA
Gregory D. Haycock, FCA, J.P.
Paul C. J. Markey

Officers

Ian Campbell, B.Sc. FCA, Executive Vice President, Property and Casualty
Alissa R. Matthews, CPA, CA, Chief Financial Officer
Judy Ebanks, Assistant Secretary
Maples Corporate Services, Corporate Secretary

Island Heritage Retirement Trust Company Ltd.

Directors

Conor O'Dea, FCA, Chairman
R. John Wight, FCPA, FCA, CPCU, Deputy Chairman

Officers

Miguel DaPonte, C.F.A., M.B.A., Senior Vice President
Talia Woods, Compliance Officer

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Subsidiary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.2% ownership)
Island Heritage Insurance Company, Ltd.
Island Heritage Retirement Trust 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
BF&M Brokers Limited
Island Heritage Insurance Company N.V.
Lawrence Boulevard Holdings Ltd.



BF&M Life | BF&M General



Island Heritage



ICBL



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