BF&M LIFE INSURANCE COMPANY LIMITED

(Incorporated in Bermuda)

Consolidated Financial Statements

31 December 2017

BF&M LIFE INSURANCE COMPANY LIMITED
Responsibility for Financial Reporting
As at 31 December 2017
(in thousands of Bermuda dollars)

The management of BF&M Life Insurance Company 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 Company's internal auditor function.

The Audit, Compliance, and Corporate Risk Management Committee of BF&M Limited, primarily composed of directors who are not officers or employees of the Company, reviews the consolidated financial statements on behalf of the Board of Directors before the statements are submitted to the shareholder.

The shareholder's independent auditors, PricewaterhouseCoopers Ltd. have audited the consolidated financial statements of the Company in accordance with International Standards on Auditing and have expressed their opinion in their report to the Company's shareholder. 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 April 3, 2018. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

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

Michael White, FIA
Group Chief Financial Officer

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Independent auditor's report

To the Board of Directors and Shareholder of BF&M Life Insurance Company Limited

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Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BF&M Life Insurance Company Limited ('the Company') and its subsidiaries (together 'the Group') as at December 31, 2017, 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

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2017;
- 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 shareholder's 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 a summary of 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.

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Responsibilities of management for the consolidated financial statements

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

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

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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda
April 18, 2018

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Financial Position
As at 31 December 2017
(in thousands of Bermuda dollars)

	Notes	2017 $	2016 $
Assets			
Cash and cash equivalents	5	37,685	45,179
Investments	7	518,181	508,522
Insurance receivables and other assets	9	19,515	19,753
Amounts due from affiliates	22	5,317	14,701
Regulatory deposits	6	2,298	2,271
Property and equipment	10	341	384
Intangible assets	11	15,319	15,408
Total general fund assets		598,656	606,218
Segregated funds assets	12	828,567	685,938
Total assets		**1,427,223**	**1,292,156**
Liabilities			
Other liabilities	13	23,627	24,453
Amounts due to affiliates	22	82	16,057
Reinsurance liabilities	14	5,262	3,630
Retirement benefit obligation	15	1,940	2,295
Investment contract liabilities	16	281,369	286,605
Insurance contract liabilities	17	197,130	184,915
Total general fund liabilities		509,410	517,955
Segregated funds liabilities	12	828,567	685,938
Total liabilities		**1,337,977**	**1,203,893**
Equity			
Share capital	18	2,500	2,500
Contributed surplus		9,760	9,155
Accumulated other comprehensive loss	23	(2,221)	(2,334)
Retained earnings		79,207	78,942
Total shareholder's equity		89,246	88,263
Total equity		**89,246**	**88,263**
Total liabilities and equity		**1,427,223**	**1,292,156**

Approved by the Board of Directors

R. John Wight

Director

Director

April 18 2018
Date

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Income
For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	Notes	2017 $	2016 $
Income			
Gross premiums written		125,180	139,501
Reinsurance ceded		(8,151)	(7,720)
Net premiums written		117,029	131,781
Investment income	7	13,261	6,707
Commission and other income	19	9,028	7,322
Total income		**139,318**	**145,810**
Benefits and Expenses			
Insurance contracts benefits and expenses	20	105,863	108,860
Investment contract (benefits) expenses		(1,531)	(1,344)
Participating policyholders' net profit		71	581
Commission expense		3,028	3,388
Operating expenses	21	25,303	23,514
Amortisation expense		2,518	1,835
Interest on loans		1	2
Total benefits and expenses		**135,253**	**136,836**
Net income for the year		**4,065**	**8,974**

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	2017 $	2016 $
Net income for the year	4,065	8,974
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	113	431
Total other comprehensive income for the year	113	431
Comprehensive income	4,178	9,405

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Changes in Shareholder's Equity
For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	2017 $	2016 $
Share capital		
Balance – beginning and end of year	2,500	2,500
Contributed surplus		
Balance – beginning of year	9,155	8,640
Stock issued under equity incentive plan	605	515
Balance – end of year	9,760	9,155
Accumulated other comprehensive loss		
Balance – beginning of year	(2,334)	(2,765)
Other comprehensive income for the year	113	431
Balance – end of year	(2,221)	(2,334)
Retained earnings		
Balance – beginning of year	78,942	73,728
Net income for the year	4,065	8,974
Dividends paid	(3,800)	(3,760)
Balance – end of year	79,207	78,942
Total shareholder's equity	**89,246**	**88,263**

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Cash Flows
For the year ended 31 December 2017
(in thousands of Bermuda dollars)

	2017 $	2016 $
Cash flows from operating activities		
Net income for the year	4,065	8,974
Adjustments for:		
Investment income	(14,506)	(14,455)
Net realised gain/(loss) on investments	2,738	(622)
Change in fair value of investments	(11,229)	3,173
Amortisation of bond premiums	768	996
Impairment of investments	6,873	1,942
Amortisation of property and equipment	120	156
Amortisation of intangible assets	2,398	1,678
Interest on loan	1	2
Compensation expense related to share grants	605	515
Changes in assets and liabilities		
Insurance receivables and other assets	774	(879)
Amounts due to/from affiliates	(6,591)	(5,665)
Insurance contract liabilities	12,215	181
Investment contract liabilities	(5,236)	15,310
Other liabilities	(826)	1,650
Reinsurance liabilities	1,632	1,335
Retirement benefit obligations	(242)	(212)
Restricted cash	(27)	(264)
Cash generated from operations	**(6,468)**	**13,815**
Interest paid	(1)	(2)
Interest received	13,697	13,716
Dividends received	273	244
Net cash generated from operating activities	**7,501**	**27,773**
Cash flows from investing activities		
Purchase of investments	(229,562)	(228,193)
Proceeds from sales of investments	220,753	205,155
Acquisition of property and equipment	(77)	(116)
Acquisition of intangible assets	(2,309)	(3,052)
Net cash used for investing activities	(11,195)	(26,206)
Cash flows from financing activities		
Cash dividends paid	(3,800)	(3,760)
Net cash used for financing activities	(3,800)	(3,760)
Decrease in cash and cash equivalents	(7,494)	(2,193)
Cash and cash equivalents – beginning of year	45,179	47,372
Cash and cash equivalents – end of year	**37,685**	**45,179**

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

1. NATURE OF THE COMPANY AND ITS BUSINESS

BF&M Life Insurance Company Limited (the "Group" or the "Company") is a wholly-owned subsidiary of BF&M Limited ("BF&M"). The Company was incorporated in Bermuda on 13 November 1990 and is registered as a Dual – Class D and Class 3B insurer under The Bermuda Insurance Act 1978, amendments thereto and related regulations ("the Act") and writes group and individual life, accident and health, pension and annuity business. 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 life, health and long-term disability insurance, annuities and the management and investment of pension plans.

The Company established a wholly owned subsidiary in the Cayman Islands called Island Heritage Retirement Trust Company Ltd. ("IHRT"). IHRT was incorporated on 20 February 2017 and was formed to develop and administer pension related business in the Cayman Islands.

On 3 April 2018, the Board of Directors approved the consolidated financial statements and authorised them for issue. The Board of Directors has the power to amend the consolidated 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 & liabilities measured at fair value; retirement benefit obligations measured at present value; and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

ii) Critical estimates, judgments and assumptions

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

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these 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 are discussed in Note 2L and sensitivities are discussed in Note 4B.

- In the determination of the fair value of financial instruments, the Group's management exercises judgement 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 intangibles assets as well as testing of recoverable amounts. The assessment of the carrying value of intangible assets relies upon the use of forecasts and future results. Refer to Note 2K and Note 11.

- 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 15.

- Management uses independent qualified appraisal services to assist in determining the fair value of available for sale 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 8 and 4.

C. Consolidation

A subsidiary is an entity 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.

D. Determination of fair value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation techniques such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and inputs. For bonds and fixed income 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. 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 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 are translated into the functional currency using the rate of exchange prevailing at the consolidated statement of financial position's date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses are expensed on the consolidated statement of income.

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

iii) Group companies

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

The 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.

F. 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.

G. Regulatory deposit

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories.

H. 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) loans and receivables, and (c) 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 on 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 on the consolidated statement of income. Dividends earned on equities are recorded in investment income on 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. 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 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.

c. 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 cost. Equities are subsequently carried at fair value. Residential properties available-for-sale are subsequently carried at the lower of carrying value and the estimated fair value less costs to sell and other available for sale financial assets are 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 on the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

De-recognition and offsetting

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

Investment income

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

b. Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Included under other liabilities are accounts payable. Other liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

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.

l. 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 financial asset.

a. Loans and receivables

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

b. Financial assets classified as available for sale

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

When an available-for-sale asset is impaired, the loss accumulated in other comprehensive income is reclassified to investment income on 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 of property and equipment, and intangibles 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 environment 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 in amortisation on 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.

J. Property and equipment

All 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 on the consolidated statement of income.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following rates:

Furniture and equipment	5 years – 10 years
Computer hardware	3 years – 5 years

The assets' residual values and 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 on the consolidated statement of income.

K. Intangible assets

Intangible assets consist of finite life intangible assets. These assets include the following:

i) Finite life intangible assets

Intangible assets have been determined to have finite lives and 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 2l(ii)). For assets that are not yet in use or subject to amortisation, such as software development costs, the impairment is assessed on an annual basis. Finite life intangible assets include the following:

a. Customer lists

These assets, which comprise customer lists, customer relationships and contracts acquired from the purchase of rights were initially measured at fair value. Subsequently, these assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 5 years, being the expected life of the business assumed.

b. Software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software 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.

L. 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.

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

a. Reinsurance contracts held related to insurance contracts

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

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

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets or liabilities. 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.

b. Insurance contract liabilities

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

The insurance liabilities under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. Long term business provisions make sufficient

allowance for the expected experience scenario and for adverse deviations in experience. Liabilities derived through an approximation to CALM rely on a combination of Group and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations, the largest of which, the group and individual health reserves, relies on a historical analysis of the Group's claims emergence patterns and completion factors. Many of the estimates used in actuarial valuation relate to future events and involve a significant amount of judgment. As a result, these estimates are subject to revision on a regular basis.

In certain life and health reinsurance contracts underwritten by the Group, 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.

ii) Investment contracts

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

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

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

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

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

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

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

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance and investment contract holders. These receivables and payables are included in insurance

receivables and other assets, insurance and investment contract liabilities and other liabilities in the consolidated statement of financial position.

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

M. 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 not separately presented in the consolidated statement of income and are disclosed in Note 12. Fee income earned on the management of these contracts is included in commission and other income in the consolidated statement of income.

N. 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 are included in investments within the consolidated statement of financial position.

O. Employee benefits

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

i) Pension obligations

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

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 provided post-retirement benefits for health care to qualified employees who retired prior to 1 January 2012. The entitlement to these benefits was 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 were 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 was provided to the Group. 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

BF&M has an Equity Incentive Plan under which subsidiaries of BF&M receive services from employees as consideration for equity instruments of BF&M (equity settled transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income.

If BF&M 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 shares grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognized in relation to such shares are reversed effective the date of forfeiture. Expenses previously recognized related to share options are not reversed on forfeit.

The grant by BF&M of its equity instruments to employees of its subsidiary undertakings is treated as a capital contribution by both BF&M and the subsidiaries. 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 in additional paid in capital with a corresponding charge to operating expenses.

iv) Employee share purchase plan

BF&M operates an employee share purchase plan that allows its employees and those of its subsidiary undertakings to purchase BF&M'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. Consistent with the accounting treatment of the share-based compensation, the discount is accounted for as a contribution to capital in the subsidiaries with a corresponding charge to operating expense in the period in which the shares are purchased.

P. 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 the Group 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.

ii) Commission income

Commission income on insurance contracts is recognised when earned and the amount is readily determinable. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

iii) Service contracts

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

Q. Leases

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

R. Share capital

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

S. Dividend distribution

Dividend distribution to the Group's shareholder 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.

3. NEW AND REVISED ACCOUNTING STANDARDS

A. Amended International Financial Reporting Standards adopted in 2017

The Group has applied the following standards and amendments for its annual reporting period commencing 1 January 2017:

i) Annual improvements to IFRSs 2014-2016
ii) Amendments to *IAS 7 – Statement of Cash Flows*

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

B. New and revised International Financial Reporting Standards to be adopted in 2018 or later

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

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") – IFRS 15 was issued in May 2014 with amendments issued in April 2016. IFRS 15 establishes principles about the nature, timing and uncertainty of revenue arising from contracts with customers and requires entities to recognize revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and is to be applied retrospectively, or on a modified retrospective basis. Insurance contracts, financial instruments, and lease contracts are not in the scope of this standard. Adoption of IFRS 15 is not expected to have a significant impact on the Group's Consolidated Financial Statements.

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.

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.

In October 2017, the IASB published a narrow-scope amendment to IFRS 9, allowing companies to measure particular pre-payable financial assets with so-called 'negative compensation' at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. The IASB also confirmed the accounting for modifications of financial liabilities. That is, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

The Group intends to defer IFRS 9 until 1 January 2021 as allowed under the amendments to *IFRS 4 – Insurance Contracts* outlined below. The Group is assessing the impact of this standard and will continue to apply IAS 39, the existing financial instrument standard until 2021.

IFRS 4 – Insurance Contracts ("IFRS 4") – Amendments to IFRS 4 were issued in September 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments introduce two approaches to address concerns about the differing effective dates of IFRS 9 and *IFRS 17 – Insurance Contracts*. The 'Overlay Approach' provides an option for all issuers of insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9 before IFRS 17 is implemented. The 'Deferral Approach' provides companies whose activities are predominantly related to insurance an option temporary exemption from applying IFRS 9 until 1 January 2021. The Group qualifies for the exemption and intends to deter IFRS 9 until 1 January 2021.

IFRS 17 – Insurance Contracts ("IFRS 17") – This new standard was issued in May 2017 and supersedes IFRS 4 and related interpretations and is effective for periods beginning on or after 1 January 2021. 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. 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.

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

Annual Improvements 2015 – 2017 Cycle – These annual improvements were issued in December 2017 and are effective for years beginning on or after 1 January 2019. There are three minor amendments to standards with prospective application required. Adoption of these improvements are not expected to have a significant impact to the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22") - IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and non-monetary assets or liabilities are recognised prior to recognition of the underlying transaction. The foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. . Adoption of this standard is not expected to have significant impact to the Group.

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

4. 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 (iii)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 the balance sheet strength, liquidity and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

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

A. Financial risks

i) Credit risk

Credit risk is the exposure that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. The Group faces credit risk on its financial assets. The following policies and procedures are in place to manage this risk:

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

	2017 **$**	**2016** **$**
Cash and cash equivalents	37,685	45,179
Fixed and regulatory deposits	2,298	2,271
Fixed income securities	449,192	431,446
Equities	14,685	13,243
Mortgages and loans	50,825	62,879
Insurance receivables and other assets	19,515	19,753
Amounts due from affiliates	5,317	14,701
Total	**579,517**	**589,472**

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:

	2017 $	2016 $
Fixed income securities issued or guaranteed by:		
Financials	83,026	79,336
Government	16,851	20,463
U.S. Treasury and other agencies	132,265	140,851
Utilities and energy	82,689	77,226
Consumer staples and discretionary	36,358	45,742
Telecom	15,845	11,841
Computer technology products and services	22,585	15,008
Industrials	13,997	16,288
Other	45,576	24,691
Total fixed income securities	**449,192**	**431,446**

	2017 $	2016 $
United States	399,697	367,730
Canada	25,037	29,533
Northern Europe	12,415	14,976
Asia-Pacific	6,442	11,325
United Kingdom	3,950	6,945
Caribbean	1,011	937
Other	640	-
Total fixed income securities	**449,192**	**431,446**

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

	2017 $	2016 $
Bermuda	50,825	62,879
Total mortgages and loans	**50,825**	**62,879**

Credit quality of financial assets

The credit quality of financial assets are assessed each quarter by reference to external credit ratings, if available, or review of historical and current conditions that existed at the consolidated statement of financial position date.

The following table summarises the carrying value of fixed income securities by external credit rating.

As at 31 December 2017

	AAA	AA	A	BBB	Not rated	Total
	$	$	$	$	$	$
Cash and cash equivalents	13,254	-	12,545	11,886	-	37,685
Regulatory deposits	-	-	2,298	-	-	2,298
Fixed income securities*	58,915	190,262	177,246	22,765	4	449,192
Total	**72,169**	**190,262**	**192,089**	**34,651**	**4**	**489,175**

As at 31 December 2016

	AAA	AA	A	BBB	Not rated	Total
	$	$	$	$	$	$
Cash and cash equivalents	13,267	-	17,747	14,165	-	45,179
Regulatory deposits	-	-	2,271	-	-	2,271
Fixed income securities*	35,893	214,460	153,631	27,456	6	431,446
Total	**49,160**	**214,461**	**173,649**	**41,621**	**6**	**478,896**

Past due or credit impaired mortgages and loans

Mortgages comprise first mortgages on real property situated in Bermuda and are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975. 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 carrying amounts of the mortgages and loans that are considered past due or impaired:

	2017	2016
	$	$
Not past due	33,610	45,300
Past due less than 90 days	6,319	11,938
Past due 90 to 180 days	738	1,463
Past due 180 days or more	-	-
Impaired (net of impairment provisions)	10,158	4,178
Total mortgages and loans	**50,825**	**62,879**

Of the $50,825 of mortgages and loans held, $20,790 are currently interest-only with future principal repayment schedules established.

Interest accrued on the impaired mortgages amounted to $367 as at 31 December 2017 (2016: $4,050).

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:

	2017	**2016**
	$	**$**
At 1 January	19,251	17,341
Transfer to available for sale residential properties	(10,931)	-
Sale of foreclosed mortgage loans	(7,774)	(23)
Increase in impairment and provision allowance	5,253	1,942
Total at 31 December	**5,799**	**19,260**

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 $199 and $407 could be incurred if collection occurred within 18-24 months.

ii) Liquidity risk

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

- Management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations;
- Short-term cash flow needs are adequately met by operating cash flows and proceeds from mortgage and loan repayments;
- The Group closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities, and pensions business. Investments in various types of assets occur with a view to matching them to 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 Group maintains appropriate dividend and capital policies to ensure movement of cash flow 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 2017 is as follows:

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total	Effective interest rate ranges
	$	$	$	$	$	
Fixed income securities	55,797	86,788	147,459	159,148	449,192	0.08%-7.13%
Mortgages	11,639	5,356	4,824	25,638	47,457	5.25%-9.00%
Policyholder loans	168	337	337	2,526	3,368	4.75%-8.25%
Insurance receivables and other assets	19,515	-	-	-	19,515	
Total	**87,119**	**92,481**	**152,620**	**187,312**	**519,532**	
Percent of total	**16.77%**	**17.80%**	**29.38%**	**36.05%**	**100.00%**	

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

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total	Effective interest rate ranges
	$	$	$	$	$	
Fixed income securities	43,702	92,097	148,830	146,817	431,446	0.24%-7.13%
Mortgages	9,071	5,516	7,032	37,691	59,310	5.25%-9.00%
Policyholder loans	178	357	357	2,677	3,569	4.75%-8.25%
Insurance receivables and other assets	19,753	-	-	-	19,753	
Total	**72,704**	**97,970**	**156,219**	**187,185**	**514,078**	
Percent of total	**14.14%**	**19.06%**	**30.39%**	**36.41%**	**100.00%**	

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 2017 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	$	$	$	$
Other liabilities	23,627	-	-	23,627
Amounts due to affiliates	82	-	-	82
Investment contract liabilities	56,630	223,875	864	281,369
Insurance contract liabilities – net of reinsurance	18,243	321	183,828	202,392
Total	**98,582**	**224,196**	**184,692**	**507,470**

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

	Within 1 year	1-5 years	Over 5 years	Total
	$	$	$	$
Other liabilities	24,453	-	-	24,453
Amounts due to affiliates	16,057	-	-	16,057
Investment contract liabilities	52,897	232,905	803	286,605
Insurance contract liabilities – net of reinsurance	18,635	252	169,658	188,545
Total	**112,042**	**233,157**	**170,461**	**515,660**

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, Bahamian, Cayman, or United States dollars;
- The Bermuda, Bahamian, and Cayman dollars are pegged to the United States dollar; and
- The Bermuda dollar is at par with the United States dollar.

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 4B - Insurance Risk below. The Group also holds fixed income investments which support non-cash flow matched liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been $1,174 (2016 - $1,131) higher and $1,095 (2016 - $1,131) lower. The interest rate sensitivity impact was calculated using the effective duration method.

Price risk

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

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

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

A 5% increase/decrease in the value of the Group's equity portfolio would increase/decrease the Group's comprehensive income by $734 (2016 - $662). The price risk sensitivity impact was calculated by using the ending balances in equity at a 5% increase/decrease.

B. 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 insurance risk, and that the businesses mitigate against any insurance risk within the parameters for the overall Group risk appetite.

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

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group selects reinsurers, from those approved by the Group, based on local factors, but assesses the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Group's 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: 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 the Group may require as a consequence.

- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. The Group also implements specific initiatives to improve retention of policies which may otherwise lapse.

- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss for, and reputational damage to, the Group. Guidelines have been developed to support the Group through the complete cycle of the product development process, financial analysis and pricing.

- Expense risk is primarily managed by the Group through the assessment of profitability and frequent monitoring of expense levels.

Concentration risk

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

	2017			2016		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Bermuda	191,516	4,489	196,005	180,027	2,975	183,002
Bahamas	3,160	773	3,933	2,748	655	3,403
Other Caribbean & Latin America	2,454	-	2,454	2,140	-	2,140
Total	**197,130**	**5,262**	**202,392**	**184,915**	**3,630**	**188,545**

Assumptions and methodologies

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 rates, 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 Group's portfolio of business is too small to form the basis for any internally produced mortality assumption. 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 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 the 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 refers to both the rates of accident or sickness and the rates of recovery therefrom. An increase in medical claim rates net of reinsurance would increase the actuarial liabilities.

c) Investment Returns

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

d) Expenses

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

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 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.

		Increase in liability	
		2017	**2016**
	Change in assumption	**$**	**$**
Mortality rate – life products	+1%	109	103
Mortality rate – annuity products	-1%	365	334
Morbidity - medical claims	+1%	787	787
Expenses	+10%	1,580	1,534
Termination rate	+10%	1,425	1,255

Investment returns

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

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

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately $3,542 (2016 - $1,630). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately $3,542 (2016 - $1,630).

C. Capital management and regulatory compliance

The Group's policy is to maintain a strong capital base. The Group manages its capital to ensure its continued ability to provide an adequate return to the shareholder, 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 Shareholder's Equity as disclosed on the consolidated statement of financial position.

The Bermuda Monetary Authority ("BMA") is the regulator of the Company. Under the laws and regulations of Bermuda, the Company must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2017, the Company 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 the Group operates. The Group's practice is to maintain its capitalisation at a level that will exceed the relevant minimum regulatory capital requirements. In addition, while not a regulatory requirement, the Group follows the capital adequacy measurement established by the Office of the Superintendent of Financial Institutions ("OSFI") in Canada known as the Minimum Continuing Capital and Surplus Requirements ("MCCSR"). OSFI will be implementing a revised approach to the regulatory capital framework in Canada in the first quarter of 2018.

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 the shareholder or issue new shares.

Under The Insurance Act 1978 (Bermuda), amendments thereto and the Insurance Account Rules 2016 ("the Act"), the Group is required annually to 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 BF&M 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.

The Act also requires the Company to meet minimum liquidity ratios whereby defined relevant assets of its Class 3B operations 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. The Company is prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus, as shown in the previous year statutory balance sheet, unless at least seven days before payment of the dividend the Company files with the BMA an affidavit that it will continue to meet its minimum capital requirement as described above. In addition, the Company 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.

5. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash at bank and in hand	24,163	31,644
Short-term bank deposits	13,522	13,535
Total	**37,685**	**45,179**

6. REGULATORY DEPOSITS

	2017 $	2016 $
Total regulatory deposits	**2,298**	**2,271**

Regulatory deposits represent fixed amounts placed on deposit with banks to satisfy licensing criteria of the Insurance Commission of the Bahamas. These deposits cannot be removed nor the amounts reduced without the prior written consent of the relevant regulator.

7. INVESTMENTS

A. Carrying amount and fair value of investments

Investments comprise:

	2017		2016	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
At fair value through profit and loss				
- Fixed income securities	449,192	449,192	431,446	431,446
- Equities	14,685	14,685	13,243	13,243
Loans and receivables				
- Mortgages	47,457	47,550	59,310	58,928
- Policyholder loans	3,368	3,368	3,569	3,569
	514,702	**514,795**	**507,568**	**507,186**
Available for sale				
- Residential properties	3,479	3,479	954	954
Total	**518,181**	**518,274**	**508,522**	**508,140**

B. Investment income (loss)

	2017 $	2016 $
Interest income		
Fixed income securities – at FVTPL	9,655	8,793
Mortgages and loans	3,478	4,116
Bank deposits and policyholder loans	280	264
Due from affiliate loans	52	42
	13,465	13,215
Dividend income		
Equities – at FVTPL	273	244
	273	244
Net realised gains (losses) on sale of investments		
Equities – at FVTPL	132	(31)
Fixed income securities – at FVTPL	(2,870)	653
	(2,738)	622
Change in fair value arising from		
Fixed income securities	9,946	(3,684)
Equities	1,283	511
	11,229	(3,173)
Impairments and deductions		
Less: Impairment provision on mortgages and loans	(5,252)	(1,942)
Less: Impairment loss on residential properties	(1,621)	-
Less: Allocation to contracts for the account and risk of customers	(2,095)	(2,259)
	(8,968)	(4,201)
Total investment income	**13,261**	**6,707**

8. FAIR VALUE MEASUREMENT

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

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

Fair values for residential properties held for sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally each year. 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.

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 2K.

B. Fair value hierarchy

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

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

i) Level 1

Fair value is based on quoted market prices for identical assets and liabilities in an active market at the consolidated statement of financial position 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.

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 as at 31 December 2017:

Assets	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
Cash and cash equivalents	37,685	-	-	37,685
Regulatory deposits	2,298	-	-	2,298
Financial assets at FVTPL				
Fixed income securities	132,265	316,927	-	449,192
Equities	13,923	762	-	14,685
Available for sale financial assets				
Residential properties	-	-	3,479	3,479
Segregated funds assets	681,777	146,790	-	828,567
Total assets	**867,948**	**464,479**	**3,479**	**1,335,906**
Liabilities				
Investment contract liabilities	-	281,369	-	281,369
Segregated funds liabilities	-	828,567	-	828,567
Total liabilities	**-**	**1,109,936**	**-**	**1,109,936**

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 as at 31 December 2016:

Assets	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
Cash and cash equivalents	45,179	-	-	45,179
Regulatory deposits	2,271	-	-	2,271
Financial assets at FVTPL				
Fixed income securities	141,578	289,868	-	431,446
Equities	12,659	584	-	13,243
Available for sale financial assets				
Residential properties	-	-	954	954
Segregated funds assets	531,837	154,101	-	685,938
Total assets	**733,524**	**444,553**	**954**	**1,179,031**
Liabilities				
Investment contract liabilities	-	286,605	-	286,605
Segregated funds liabilities	-	685,938	-	685,938
Total liabilities	**-**	**972,543**	**-**	**972,543**

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

	2017 $	**2016** $
Opening balance	954	1,500
Purchases / (Sales)	4,124	(568)
Gains or losses recognised in income	(1,599)	22
Total	**3,479**	**954**

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 as at 31 December 2017:

Assets	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
Loans and receivable financial assets				
Mortgages	-	-	47,550	47,550
Policyholder loans	-	-	3,368	3,368
Total assets	**-**	**-**	**50,918**	**50,918**

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 as at 31 December 2016:

Assets	**Level 1** $	**Level 2** $	**Level 3** $	**Total** $
Loans and receivable financial assets				
Mortgages	-	-	58,928	58,928
Policyholder loans	-	-	3,569	3,569
Total assets	**-**	**-**	**62,497**	**62,497**

Mortgage loans – The fair values for mortgage loans on real estate are estimated on a monthly basis using discounted cash flow analyses and rates currently being offered in the marketplace.

Policyholder and other loans – The fair value of policy and other loans is reflected as being equal to the carrying value of the loans.

9. INSURANCE RECEIVABLES AND OTHER ASSETS

	2017 $	**2016** $
Insurance receivables	13,067	9,451
Accounts receivable	3,111	3,266
Investment income due and accrued	3,337	7,036
Total	**19,515**	**19,753**

10. PROPERTY AND EQUIPMENT

	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor vehicles $	Total $
At 1 January 2016				
Cost	361	493	-	854
Accumulated amortisation	(164)	(266)	-	(429)
Net book value	**197**	**227**	**-**	**424**
Year ended 31 December 2016				
Additions	78	38	-	116
Disposals	(33)	(1)	-	(34)
Disposals – accumulated amortisation	33	1	-	34
Amortisation charge	(39)	(117)	-	(156)
Closing net book value	**236**	**148**	**-**	**384**
At 31 December 2016				
Cost	406	530	-	936
Accumulated amortisation	(170)	(382)	-	(552)
Net book value	**236**	**148**	**-**	**384**
Year ended 31 December 2017				
Additions	19	46	12	77
Disposals	(70)	(2)	-	(72)
Disposals – accumulated amortisation	70	2	-	72
Amortisation charge	(37)	(81)	(2)	(120)
Closing net book value	**218**	**113**	**10**	**341**
At 31 December 2017				
Cost	355	574	12	941
Accumulated amortisation	(137)	(461)	(2)	(600)
Net book value	**218**	**113**	**10**	**341**

11. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

		Finite Life	
	Customer Lists	Software Development Costs	Total
	$	$	$
At 1 January 2016			
Cost	-	19,488	19,488
Accumulated amortisation	-	(5,454)	(5,454)
Net book value	**-**	**14,034**	**14,034**
Year ended 31 December 2016			
Additions	-	3,052	3,052
Amortisation	-	(1,678)	(1,678)
Closing net book value	**-**	**15,408**	**15,408**
At 31 December 2016			
Cost	-	22,540	22,540
Accumulated amortisation	-	(7,132)	(7,132)
Net book value	**-**	**15,408**	**15,408**
Year ended 31 December 2017			
Additions	1,001	1,308	2,309
Disposals	-	(7)	(7)
Disposals – accumulated amortisation	-	7	7
Amortisation	(142)	(2,256)	(2,398)
Closing net book value	**859**	**14,460**	**15,319**
At 31 December 2017			
Cost	1,001	23,841	24,842
Accumulated amortisation	(142)	(9,381)	(9,523)
Net book value	**859**	**14,460**	**15,319**

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 2016 or 2017. For software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in Note 2I(ii).

Customer lists

Customer lists are assessed for impairment as per the accounting policy described in Note 2K(i).

12. SEGREGATED FUNDS

The Group's segregated funds net assets were comprised entirely of mutual funds for both the 2017 and 2016 years.

Segregated funds – statement of changes in net assets

	2017 $	2016 $
Segregated funds assets – beginning of year	685,938	631,059
Additions:		
Pension contributions	108,538	104,144
Net realised and unrealised gains/(losses)	113,598	28,348
Total additions	222,136	132,492
Deductions:		
Payments to policyholders and their beneficiaries	(71,915)	(71,058)
Management fees	(7,592)	(6,555)
Total deductions	(79,507)	(77,613)
Net additions to segregated funds	142,629	54,879
Segregated funds assets – end of year	**828,567**	**685,938**

13. OTHER LIABILITIES

These include:	2017 $	2016 $
Insurance balances payable	6,888	5,394
Payables and accrued expenses	11,833	14,231
Policyholder dividends payable	4,906	4,828
Total	**23,627**	**24,453**

Insurance balances payable include amounts payable to reinsurers and brokers.

14. REINSURANCE LIABILITIES

Reinsurance liabilities are comprised of the following:

	2017 $	2016 $
Life and health insurance contracts:		
Participating		
Individual life	2,094	1,818
Non-participating		
Individual life	4,720	3,830
Group life	(1,556)	(2,021)
Health and accident	4	3
Total Reinsurance liabilities	**5,262**	**3,630**

15. RETIREMENT BENEFIT OBLIGATION

Through BF&M, the Group sponsors two pension plans and a post retirement medical plan for its Bermuda employees. The Group sponsors a percentage of the BF&M plan and the allocation is based on an average headcount of employees.

A. Defined contribution plan

BF&M 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 $429 (2016 - $342) equating to the service cost for the year for these employees was reported during the year.

B. Post-retirement medical plan

BF&M 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.

Cash contributions to the plan by the Group during 2017 were $128 (2016 - $138).

C. Defined benefit pension plan

Through BF&M, the Group sponsors a defined benefit pension plan for eligible employees. These plans are closed to new entrants for employees hired after 1999. The defined benefit plan is administered by a separate Fund that is 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 fund.

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The scheme is generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2017 were $417 (2016 – $410).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plans assets and the present value of the defined benefit obligation was carried out as of 31 December 2017.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2017 and 2016.

	2017 $	2016 $
Defined benefit pension plan	(839)	(1,033)
Medical benefit plan	(1,101)	(1,262)
Total Retirement benefit obligations	**(1,940)**	**(2,295)**

	Defined benefit pension plans		Medical benefit plans	
Change in benefit obligation	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Balance - beginning of year	14,207	13,441	1,262	1,422
Current service cost	206	202	-	-
Interest expense	576	599	59	64
Actuarial gains and losses due to changes in:				
Experience	97	60	(131)	-
Economic assumption changes	453	441	39	(86)
Changes in asset ceiling, excluding amounts included in interest expense	671	253	-	-
Benefits paid	(862)	(789)	(128)	(138)
Total benefit obligation - end of year	**15,348**	**14,207**	**1,101**	**1,262**

	Defined benefit pension plans		Medical benefit plans	
Change in plan assets	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Fair value - beginning of year	13,174	11,925	-	-
Interest income	1,802	1,652	-	-
Employer contributions	417	410	128	138
Plan expenses	(22)	(24)	-	-
Benefits paid	(862)	(789)	(128)	(138)
Total fair value of plan assets - end of year	**14,509**	**13,174**	**-**	**-**

	Defined benefit pension plans		Medical benefit plans	
	2017 $	**2016 $**	**2017 $**	**2016 $**
Net defined benefit liability recognised in Consolidated Statement of Financial Position	**(839)**	**(1,033)**	**(1,101)**	**(1,262)**

Amounts recognised in respect of these defined benefit plans:

Net benefit cost recognised in Consolidated Statement of Income	Defined benefit pension plan 2017 $	Defined benefit pension plan 2016 $	Medical benefit plans 2017 $	Medical benefit plans 2016 $
Current service cost	206	202	-	-
Interest expense	576	599	59	64
Expected return on plan assets	(559)	(554)	-	-
Administrative expense	22	24	-	-
Total net benefit cost	**245**	**271**	**59**	**64**

Remeasurement effects recognised in OCI	Defined benefit pension plan 2017 $	Defined benefit pension plan 2016 $	Medical benefit plans 2017 $	Medical benefit plans 2016 $
Return on plan assets (excluding amounts included in interest income)	(1,243)	(1,099)	-	-
Actuarial gains and losses due to change in:				
Experience	97	441	(131)	-
Financial assumptions	453	60	39	(86)
Adjustments for restrictions on the defined benefit asset	672	253	-	-
Total re-measurement effect	**224**	**(74)**	**(33)**	**(22)**

The service cost and the net-interest expense for the year is included in pension costs in operating expenses in the consolidated statement of income. The re-measurement on the net defined benefit liability is included in the consolidated statement of comprehensive income as part of other comprehensive income.

Asset allocation

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

	2017			2016		
	Quoted $	Unquoted $	Total $	Quoted $	Unquoted $	Total $
Equity instruments	7,281	-	7,281	2,272	-	2,272
Fixed income instruments	5,781	-	5,781	9,338	-	9,338
Real estate	-	1,041	1,041	-	1,095	1,095
Other	-	406	406	-	469	469
Total asset allocation	**13,062**	**1,447**	**14,509**	**11,610**	**1,564**	**13,174**

Pension and medical plan assets include the Group's parent ordinary shares with a fair value of $966 (2016 - $1,148).

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

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

Actuarial assumptions

The significant weighted-average assumptions as of 31 December 2017 and 2016 are:

	Defined benefit pension plan		Medical benefit plans	
	2017	**2016**	**2017**	**2016**
	%	**%**	**%**	**%**
Benefit cost during the year:				
Discount rate	3.25	3.50	3.00	3.25
Rate of compensation increase	1.75	2.00	-	-
Medical claims inflation*	-	-	6.50	6.50
Defined benefit obligation at end of year:				
Discount rate	3.50	3.50	3.25	3.25
Compensation increase	2.75	3.00	-	-
Medical claims inflation*	-	-	6.50	6.50

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

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 plan		Medical benefit plans	
	2017	**2016**	**2017**	**2016**
	in years	**in years**	**in years**	**in years**
Male	20.15	20.07	20.15	20.07
Female	22.34	22.30	22.34	22.30

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

	Defined benefit pension plan		Medical Benefit Plans	
	Increase 2017 $	Decrease 2016 $	Increase 2017 $	Decrease 2016 $
Discount rate	2,142	1,531	200	108
Compensation increase	116	89	215	117
Average life expectancy	610	421	141	75

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and 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 within the consolidated 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 pensions obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

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

Expected contributions to post-employment benefit plans for the year ending 2017 are $517.

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

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

Future benefit payments

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

	2018 $	2019 $	2020 $	2021 $	2022-2033 $
Defined benefit pension	1,008	1,010	1,131	1,161	14,440
Medical benefit plan	125	133	130	127	1,216
Total future payments	1,133	1,143	1,261	1,288	15,656

16. INVESTMENT CONTRACT LIABILITIES

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

	2017 $	2016 $
Guaranteed interest pension	279,399	284,229
Term certain annuities	1,970	2,376
Total investment contract liabilities	**281,369**	**286,605**

	2017 $	2016 $
At 1 January 20	286,605	286,424
Pension contributions	39,558	55,660
Interest credited	564	915
Benefits paid	(33,518)	(40,320)
Management fees deducted	(45)	(84)
Net transfers out	(11,795)	(15,990)
Total at 31 December	**281,369**	**286,605**

17. INSURANCE CONTRACT LIABILITIES

A. Composition of insurance contract liabilities

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Life and health insurance contracts:						
Participating						
Individual life	33,579	2,094	35,673	30,868	1,818	32,686
Non-participating						
Individual life	18,217	4,720	22,937	16,874	3,830	20,704
Individual and group annuities	124,384	-	124,384	114,966	-	114,966
Group life	6,511	(1,556)	4,955	7,435	(2,021)	5,414
Health and accident	14,439	4	14,443	14,772	3	14,775
Total insurance contract liabilities	**197,130**	**5,262**	**202,392**	**184,915**	**3,630**	**188,545**

B. Changes in life and health insurance contract liabilities

	2017			2016		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Provision for policy benefits	182,046	3,630	185,676	166,266	2,295	168,561
Claims payable	2,430	-	2,430	3,481	-	3,481
Provision for participating policyholders	439	-	439	(142)	-	(142)
Life and health insurance contract liabilities - 1 January	**184,915**	**3,630**	**188,545**	**169,605**	**2,295**	**171,900**
Change in provision for policy benefits						
Aging and changes in balances	2,249	242	2,491	15,824	1,155	16,979
Changes in assumptions:						
Investment returns	8,980	1,146	10,126	1,662	340	2,002
Mortality	1,517	234	1,751	(349)	(34)	(383)
Lapse	-	-	-	-	-	-
Expense	-	-	-	(1,044)	(95)	(1,139)
Other	83	15	98	(172)	(17)	(189)
Other changes	(30)	(5)	(35)	(141)	(14)	(155)
	12,799	1,632	14,431	15,780	1,335	17,115
Provision for policy benefits	194,845	5,262	200,107	182,046	3,630	185,676
Claims payable	1,775	-	1,775	2,430	-	2,430
Provision for participating policyholders	510	-	510	439	-	439
Total life and health insurance contract liabilities – 31 December	**197,130**	**5,262**	**202,392**	**184,915**	**3,630**	**188,545**

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 on 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.

C. Composition of the assets supporting liabilities

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

	2017			
	Fixed income securities $	**Mortgages and loans $**	**Cash & Equivalents $**	**Total $**
Participating				
Individual life	30,791	2,054	2,828	35,673
Non-participating				
Individual life	16,414	6,223	300	22,937
Individual and group annuities	90,124	34,166	94	124,384
Group life	1,699	644	2,612	4,955
Health and accident	5	2	14,436	14,443
Total	**139,033**	**43,089**	**20,270**	**202,392**

	2016			
	Fixed income securities $	**Mortgages and loans $**	**Cash & Equivalents $**	**Total $**
Participating				
Individual life	28,284	2,228	2,174	32,686
Non-participating				
Individual life	13,794	6,646	200	20,640
Individual and group annuities	77,628	37,401	-	115,029
Group life	1,812	873	2,730	5,415
Health and accident	5	2	14,768	14,775
Total	**121,523**	**47,150**	**19,872**	**188,545**

18. SHARE CAPITAL

	2017 $	**2016 $**
Authorised, issued and fully paid - 2,500,000 (2016 – 2,500,000) common share of par value of $1 each	**2,500**	**2,500**

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.

19. COMMISSION AND OTHER INCOME

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

	2017 $	**2016 $**
Commission and other income	(4)	39
Fees earned from management of insurance contracts	1,032	234
Fees earned from management of investment contracts	1	9
Pension administration income	6,808	5,786
Fee income	812	919
IT asset usage recharge	379	335
Total commission and other income	**9,028**	**7,322**

20. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2017 $	**2016 $**
Gross life and health claims and benefits paid	96,328	95,126
Reinsurance recoveries	(4,896)	(3,381)
Change in insurance contract liabilities	12,799	15,780
Change in reinsurance assets	1,632	1,335
Total insurance contracts benefits and expenses	**105,863**	**108,860**

21. OPERATING EXPENSES

	2017 $	2016 $
Wages and salaries	13,050	12,087
Professional and consulting fees	1,937	1,758
Post retirement benefit costs	733	677
IT maintenance contracts	4,104	3,543
Advertising and business development	1,203	1,169
Bank charges and foreign currency purchase tax	541	541
Office rent, building and utilities costs	1,492	1,409
Share expense	560	515
Compliance, legal and regulatory	677	545
Office and administration expenses	436	549
Bad debt	272	156
Travel	158	200
Memberships and subscriptions	62	60
Training and development	56	75
Other	22	230
Total operating expenses	**25,303**	**23,514**

22. RELATED PARTIES

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

	2017 $	2016 $
Sales of insurance contracts and pension services:		
- Key management	56	46

B. Key management compensation

The following table shows compensation to key management:

	2017 $	2016 $
Salaries and other short-term employee benefits	930	913
Post-employment benefits	29	30
Other long-term benefits	-	3
Share based payments	308	233
Total	**1,267**	**1,179**

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.

	2017 $	2016 $
At 1 January	347	346
Adjustment for changes in key management	-	(346)
Loans advances / (repayments)	(31)	342
Interest charges	21	5
Total at 31 December	**337**	**347**

D. Related party transactions

i) Included in revenue and expenses for the year ended 31 December 2017 are:

(i) Interest income of $52 (2016 – $42) from a loan to Hamilton Financial Limited.
(ii) Corporate recharges direct from the Parent company or its subsidiaries of $9,037 (2016 – $6,123).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

ii) At the end of the year, the amounts due to or from related parties are:

	2017 $	2016 $
Due from related parties:		
Direct Parent company	768	2,179
Wholly-owned subsidiaries of the Parent company	4,444	11,756
Partially-owned subsidiaries of the Parent company	105	766
	5,317	**14,701**
Due to related parties:		
Direct Parent company	24	-
Wholly-owned subsidiaries of the Parent company	58	16,057
	82	**16,057**

Included in amounts due to or from the Parent company or wholly-owned subsidiaries of the Parent company at 31 December 2017 are:

a. Advances to the Parent Company of $768 (2016 – $2,179) are interest free and are repayable upon demand. These advances will be forgiven as dividends are declared to the Parent Company.

b. A loan to Hamilton Financial Limited of $1,800 (2016 – $1,800), which was to assist in the acquisition of a 51.71% interest in the Insurance Corporation of Barbados Limited. The loan earns interest at 1.5% above the LIBOR rate, due quarterly in arrears. The loan is payable upon demand.

All remaining amounts due from and to affiliated companies arise during the normal course of business, are non-interest bearing and are repayable upon demand.

23. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2017 $	2016 $
Items that will not be reclassified to profit or loss:		
Re-measurement of post-employment benefit obligations:	(2,221)	(2,334)
Total	**(2,221)**	**(2,334)**

24. COMMITMENTS AND CONTINGENCIES

A. Operating leases

The Group has entered into various commercial leases with renewable options on office space. During the year-end 31 December 2017 and 2016, an amount of $570 and $653 respectively, was recognised in the consolidated statement of income. The future minimum lease payments payable under non-cancellable leases are as follows:

	2017 $	2016 $
No later than 1 year	560	560
Later than 1 year and no later than 5 years	690	1,249
Later than 5 years	-	-
Total	**1,250**	**1,809**

B. Contingencies

The Group 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 adverse effect on the consolidated financial statements of the Group. However, based on information presently known, management does not expect that it is probable that the outcome of existing legal action, relating to an interpretation of contract terms, will have a material adverse effect on the financial position of the Group. Actual results could differ from management's best estimates.

25. SUBSEQUENT EVENT

On April 3, 2018 the Group declared a dividend to be paid to BF&M in the amount of $8,000.