BF&M General Insurance Company Limited
(Incorporated in Bermuda)

Consolidated financial statements

31 December 2022

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

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

The BF&M General Board of Directors reviews the consolidated financial statements before the statements are submitted to the shareholder.

The shareholder's independent auditors, PricewaterhouseCoopers Ltd. have audited the consolidated financial statements of the Group in accordance with International Standards on Auditing and have expressed their opinion in their report to the Group's shareholder. The auditors have unrestricted access to and meet periodically with the BF&M General Board of Directors 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 23 March 2023. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

Abigail Clifford, B.A., M.Sc
Group President and Group Chief Executive Officer

Bruce Walker
Group Chief Financial Officer

Independent auditor’s report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of BF&M General Insurance Company Limited (the Company) and its subsidiaries (together ‘the Group’) as at 31 December 2022, 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 31 December 2022;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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.

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 26, 2023

BF&M GENERAL INSURANCE COMPANY LIMITED

Consolidated Statement of Financial Position

As at 31 December 2022

(in thousands of Bermuda dollars)

	Notes	2022 $	2021 $
Assets			
Cash and cash equivalents	6	43,655	55,417
Regulatory assets	7	19,961	20,139
Investments	8	88,483	100,171
Insurance receivables and other assets	9	69,652	66,505
Due from affiliates	24	18,834	11,484
Deferred acquisition costs	10	12,990	11,577
Reinsurance assets	11	105,006	98,450
Investment properties	12	21,832	21,578
Tax recoverable	14	1,194	1,196
Deferred tax asset	14	376	376
Property and equipment	13	12,278	12,460
Intangible assets	15	8,744	16,248
Total assets		**403,005**	**415,601**
Liabilities			
Other liabilities	16	66,550	67,600
Due to affiliates	24	17,378	24,617
Tax payable	14	375	60
Retirement benefit obligations	17	690	855
Insurance contract liabilities	18	152,714	142,065
Total liabilities		**237,707**	**235,197**
Equity			
Share capital	19	10,000	10,000
Contributed surplus		63,675	63,211
Accumulated other comprehensive loss	23	(338)	(532)
Retained earnings		85,376	100,633
Total shareholder's equity		**158,713**	**173,312**
Non-controlling interests		6,585	7,092
Total equity		**165,298**	**180,404**
Total liabilities and equity		**403,005**	**415,601**

**Certain comparative figures have been reclassified to conform to the consolidated financial statements presentation adopted for the current period. As at 31 December 2021, $476 was reclassified from "Investment properties" to "Insurance receivables and other assets".*

Approved by the Board of Directors

Abigail Clifford, B.A., M.Sc.
Group President and Chief Executive Officer

Caroline Mills-White, M.Sc., FCIP
Director

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

BF&M GENERAL INSURANCE COMPANY LIMITED
Consolidated Statement of Income
For the year ended 31 December 2022
(in thousands of Bermuda dollars)

	Notes	2022 $	2021 $
INCOME			
Gross premiums written		243,291	235,729
Reinsurance ceded		(197,598)	(189,754)
Net premiums written		**45,693**	**45,975**
Net change in unearned premiums	18	(2,430)	(2,618)
Net premiums earned		**43,263**	**43,357**
Investment result	8	(8,612)	4,892
Commission and other income	20	36,570	36,071
Rental income		2,867	3,812
Total income		**74,088**	**88,132**
EXPENSES			
Insurance contracts benefits and expenses			
Short term claim and adjustment expenses	21	15,775	14,765
Commission and acquisition expense		29,505	28,825
Operating expenses	22	33,913	30,547
Amortisation expense		9,679	5,475
Interest expense		16	19
Total benefits and expenses		**88,888**	**79,631**
(Loss)/Income before income taxes		**(14,800)**	**8,501**
Income tax expense	14	(373)	(264)
Net (loss) / income for the year		**(15,173)**	**8,237**
Net income attributable to:			
Shareholders*		**(15,257)**	**7,740**
Non-controlling interests in subsidiaries		84	497
Net (loss) / income for the year		**(15,173)**	**8,237**

**2021 Net income attributable to shareholders and non controlling interest in subsidiary has been represented to conform with current year presentation*

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

BF&M GENERAL INSURANCE COMPANY LIMITED
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022
(in thousands of Bermuda dollars)

	2022 $	2021 $
Net (loss) / income for the year	(15,173)	8,237
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	203	514
Total other comprehensive income/(loss) for the year after income taxes	**203**	**514**
Total other comprehensive income/(loss)attributable to:		
Shareholders	194	491
Non-controlling interests in subsidiaries	9	23
Total other comprehensive income/(loss) for the year after income taxes	**203**	**514**
Comprehensive (loss) / income	**(14,970)**	**8,751**
Comprehensive (loss) / income attributable to:		
Shareholders	(15,063)	8,231
Non-controlling interests in subsidiaries	93	520
Comprehensive (loss) / income	**(14,970)**	**8,751**

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 14.

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

BF&M GENERAL INSURANCE COMPANY LIMITED
Consolidated Statement of Changes in Equity
For the year ended 31 December 2022
(in thousands of Bermuda dollars)

	2022 $	2021 $
Share capital – beginning and end of year	**10,000**	**10,000**
Contributed surplus		
Balance – beginning of year	63,211	62,837
Share grants issued under equity incentive plan	464	374
Contributed surplus – end of year	**63,675**	**63,211**
Accumulated other comprehensive loss		
Balance – beginning of year	(532)	(1,023)
Other comprehensive income for the year	194	491
Balance - end of year	**(338)**	**(532)**
Retained earnings		
Balance - beginning of year	100,633	90,698
Net (loss) / income for the year	(15,257)	7,740
Acquisition of non-controlling interests net of purchase price	-	2,195
Balance – end of year	**85,376**	**100,633**
Total equity attributable to shareholder of the Company	**158,713**	**173,312**
Attributable to non-controlling interests		
Balance - beginning of year	7,092	10,864
Net income for the year	84	497
Other comprehensive income for the year	9	23
Acquisition of non-controlling interest	-	(3,492)
Cash dividends	(600)	(800)
Balance – end of year	**6,585**	**7,092**
Total equity	**165,298**	**180,404**

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

BF&M GENERAL INSURANCE COMPANY LIMITED
Consolidated Statement of Cash Flows
For the year ended 31 December 2022
(in thousands of Bermuda dollars)

	2022 $	2021 $
Cash flows from operating activities		
(Loss) / income before income taxes	(14,800)	8,501
Adjustments for:		
Investment income	(1,666)	(1,516)
Net realised (gain)/loss on investments	687	(848)
Change in fair value of investments	9,036	(3,266)
Amortisation of property and equipment	665	742
Amortisation of investment properties	988	926
Amortisation of intangible assets	2,572	3,802
Impairment of intangible assets	5,428	5
Loss on sale of property and equipment	1	138
Compensation expense related to shares and options	464	374
Changes in assets and liabilities:		
Regulatory assets	178	273
Insurance receivables and other assets*	(3,147)	(9,918)
Due to/from affiliates	(14,589)	11,882
Deferred acquisition costs	(1,413)	(1,208)
Reinsurance assets	(6,556)	14,788
Insurance contract liabilities	10,649	(10,614)
Other liabilities	(1,050)	1,775
Tax recoverable	-	12
Tax payable	-	(32)
Retirement benefit obligations	38	97
Cash generated (used in) / from operations	**(12,515)**	**15,913**
Income taxes (paid)/received	(84)	(284)
Interest received	1,366	1,209
Dividends received	558	542
Net cash (used in) / from operating activities	**(10,675)**	**17,380**
Cash flows from investing activities		
Purchase of investments	(15,368)	(52,352)
Proceeds from sales of investments	17,103	19,485
Acquisition of property and equipment	(484)	(311)
Acquisition of investment properties*	(1,242)	(1,792)
Acquisition of intangible assets	(496)	(50)
Net cash (used in) / from investing activities	**(487)**	**(35,020)**
Cash flows from financing activities		
Net cash paid on acquisition of non-controlling interest	-	(1,307)
Cash dividends paid to non-controlling interest	(600)	(800)
Net cash (used in)/ from financing activities	**(600)**	**(2,107)**
Decrease in cash and cash equivalents	(11,762)	(19,747)
Cash and cash equivalents - beginning of year	55,417	75,164
Cash and cash equivalents - end of year	**43,655**	**55,417**

**As at 31 December 2021, $476 was reclassified from “Investment properties” to “Insurance receivables and other assets”.*

(in thousands of Bermuda dollars)

1. NATURE OF THE GROUP AND ITS BUSINESS

BF&M General Insurance Company Limited (the "Group" or "BF&M General" or the "Company") is a wholly-owned subsidiary of BF&M Limited ("BF&M" or "BF&M Group"), a publicly traded Bermuda domiciled company. The Company is registered as a Class 3B insurer under The Insurance Act, 1978, related Regulations and amendments thereto ("The Act"). The address of its registered office is: 112 Pitts Bay Road, Pembroke HM08, Bermuda.

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

The Group is involved in property, casualty, motor, and marine insurance, as well as insurance brokerage services and the rental of office space in buildings owned by the Group.

The Group has the following subsidiaries:

	% owned	Principal country of operation and incorporation
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
BF&M Brokers Limited ("BF&M Brokers")	100	Bermuda
Barr's Bay Properties Limited ("Barr's Bay")	100	Bermuda
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda
Island Heritage Insurance Company, Ltd ("IHIC")	100	Cayman Islands
Island Heritage Insurance Company, Ltd. NV.	100	Netherlands Antilles
Lawrence Boulevard Holdings Limited	100	Cayman Islands

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

On 23 March, 2023 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: i) available-for-sale financial instruments and ii) financial assets and liabilities at fair value through profit or loss; and the measurement of retirement benefit obligations measured at present value.

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

ii) Critical Estimates, Judgements and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, 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 judgements have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to 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 5.
- Management considers the synergies and future economic benefits to be realised in the initial recognition and measurement of goodwill and intangible assets as well as evaluating recoverable amounts. The assessment of the carrying value of goodwill and intangible assets relies upon the use of forecasts and future results. Refer to Note 2M and Note 15.
- 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 17.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties for purposes of evaluating possible impairment. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Note 5 and 12.

- The Group operates within various tax jurisdictions where significant management judgments and estimates are required when interpreting the relevant tax laws, regulations and legislation in the determination of the Group's tax provision and the carrying amounts of its tax assets and liabilities. Refer to Note 14.

C. CONSOLIDATION

i) Subsidiaries

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

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

ii) Transactions with non-controlling interest

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

D. DETERMINATION OF FAIR VALUE

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

When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation methods such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgement is required to determine fair value by assessing the valuation methods and inputs. For bonds and fixed income securities, broker quotes are typically used when external public vendor prices are not available. Judgement 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 5.

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, excluding per share data or where otherwise stated, are in thousands of Bermuda dollars, which is the Group's presentation currency (the "presentation currency").

ii) Transactions and balances

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

iii) Group companies

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

The Cayman Islands 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 are readily convertible to known amounts of cash and which are subject to an insignificant change in value, and bank overdrafts.

G. REGULATORY ASSETS

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

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) held-to-maturity; and c) loans and receivables. 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 result in the consolidated statement of income as incurred. FVTPL assets are measured at fair value and changes in fair value as well as realised gains and losses on sales are recognised in investment result in the consolidated statement of income. Dividends earned on equities are recorded in investment result in the consolidated statement of income. Derivatives are also categorised as held-for-trading unless they are designated as hedges. The Group has not designated any derivatives as hedges.

b) Held-to-maturity financial assets

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

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

De-recognition and offsetting

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

Investment income

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

ii) Financial liabilities

Classification, recognition and subsequent measurement of financial liabilities
Management determines the classification of financial liabilities at initial recognition.

All financial liabilities are classified as other financial liabilities. Included under other liabilities are accounts payable. Other remaining liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

All other liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

I. IMPAIRMENT OF ASSETS

i) Impairment of financial assets

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

ii) Impairment of non-financial assets

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

J. INVESTMENT PROPERTIES

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

K. PROPERTY AND EQUIPMENT

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

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

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

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

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

L. LEASES

i) The Group as a lessee

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

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

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

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

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

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

ii) The Group as a lessor

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

M. INTANGIBLE ASSETS

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

i) Finite life intangible assets

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

Customer relationships and contracts

These assets, which comprise customer lists, customer relationships and contracts acquired from the purchase of rights or as part of business combinations, were initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. Subsequently, these assets are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line basis over either 3 or 10 years, being the expected life of the business assumed. These assets include assets acquired on the acquisition of IHIC and BF&M Brokers.

Distribution channels

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

Software development costs

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

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

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred. Capitalised software development costs for projects in use are amortised on a straight-line basis over their useful lives, which range from 3 to 10 years.

ii) Goodwill

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

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

N. INSURANCE CONTRACTS

The Group issues contracts that transfer insurance risk.

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.

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.

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

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

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

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies on a straight-line basis as premium is earned. For policies written where there has been a total loss on sums insured, any deferred acquisition costs still reported in the consolidated statement of financial position will be immediately recognised in full in the consolidated statement of income.

b) *Reinsurance contracts held related to insurance contracts*

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

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

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

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss in the consolidated statement of income. For reinsurance coverage that is exhausted before the policy end date, any deferred balances still recorded in the consolidated statement of financial position will be recognised in full immediately in the consolidated statement of income.

c) *Insurance contract liabilities*

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

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

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

d) *Liability adequacy test*

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

ii) Receivables and payables related to insurance contracts

Receivables and payables are recognised at contract inception. These include amounts due to and from agents, brokers and insurance contract holders. These receivables and payables are included in insurance receivables and other assets, insurance 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 and calculates the impairment loss using the same process and method adopted for loans and receivables in Note 2 I above.

O. CURRENT AND DEFERRED INCOME TAX

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

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

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

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

P. EMPLOYEE BENEFITS

BF&M Limited operates various post-employment schemes, including defined benefit and defined contribution pension plans and post-employment medical plans.

i) Pension obligations

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

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

As the plan is closed to new participants, only the interest on the obligation is recognised in the consolidated statement of income. 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 (both equity, and equity based but cash settled, transactions). Share grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income. Where share grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognised in relation to such shares is reversed effective the date of forfeiture.

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. Expenses previously recognised related to share options are not reversed on forfeit.

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

iv) Employee share purchase plan

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. The discount is charged to compensation expense in the period in which the shares are purchased.

Q. REVENUE RECOGNITION

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

i) Premium income

Premiums written are earned on a pro-rata basis over the terms of the policies to which they are related. Unearned premiums represent the portion of premiums written that relate to the period of risk subsequent to the year-end. Unearned premiums are included as a component of insurance contract liabilities in the consolidated statement of financial position. For policies written where there has been a total loss on sums insured, any unearned premium still reported in the consolidated statement of financial position is immediately recognised in full in the consolidated statement of income.

ii) Commission income

Commission income is recognised over the term of the related reinsurance contracts and in accordance with the expensing of the related reinsurance premiums. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

R. 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. NEW AND REVISED ACCOUNTING STANDARDS EFFECTIVE 1 JANUARY 2022

The Group has applied the following relevant standards and amendments for the first time for its annual reporting period commencing 1 January 2022:

i. Improvements 2018 – 2020

Annual Improvements 2018–2020 Cycle was issued in May 2020 and is effective on or after January 1, 2022. The IASB issued four minor amendments to different standards as part of the Annual Improvements process, to be applied prospectively. Adoption of these amendments did not have a significant impact on the Group's Consolidated Financial Statements

ii. Amendments to *IFRS 3 Business Combinations*

Amendments to *IFRS 3 Business Combinations* were issued in May 2020, and are effective on or after January 1, 2022, with earlier application permitted. The amendments update references to the revised Conceptual Framework without significantly changing its requirements. It requires that the principles in *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* be used to identify liabilities and contingent assets arising from a business combination. Adoption of these amendments did not have a significant impact on Group's Consolidated Financial Statements.

B. NEW AND REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following sets out standards that will be adopted on January 1, 2023.

IFRS 17 – Insurance Contracts ("IFRS 17")

IFRS 17 will replace IFRS 4 which sets out the requirements for the recognition, measurement, presentation, and disclosures of insurance contracts a company issues, reinsurance contracts it holds, and investment contracts with discretionary participation features issued.

The primary features of IFRS 17 are as follows:

The measurement of the present value of future contract cash flows incorporating an explicit risk adjustment and remeasured at each reporting period (the fulfilment cash flows).

IFRS 17 introduces the concept of directly attributable expenses. Directly attributable expenses are included in the IFRS 17 measurement of insurance contract liabilities, whereas non-directly attributable expenses are recognized in profit and loss as incurred. Directly attributable expenses also include acquisition expenses from the costs of selling, underwriting and starting a group of insurance contracts that are directly attributable.

A contractual service margin, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (coverage period); for reinsurance contract held, a contractual service margin is modified, instead of unearned profit, it presents a net cost or net gain on purchasing the reinsurance.

The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and

Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

One of the three measurement models introduced by IFRS 17 are applicable to the Group as follows:

Premium Allocation Approach (PAA)

The Group applies this model to its property and casualty products. This simplified model can be used when the contract boundary is less than one year, or the approach is expected to produce a similar liability for remaining coverage (LRC) as under the General Measurement Model (GMM). Under the PAA, the LRC is set as the premiums received less acquisition expenses, less premium revenue recognized, the Group has elected not to discount the LRC. The liability for incurred claims follows the same measurement provisions as the GMM and discounting is applied, as well as a specific risk adjustment to compensate for non-financial risk.

The measurement of reinsurance contracts held is similar to insurance contracts issued.

On transition to IFRS 17, the Group will restate comparative information for 2022 applying the full retrospective approach..

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement, effective January 1, 2023.

The Group satisfies the criteria set out in IFRS 4 Insurance Contracts for the temporary exemption from IFRS 9. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Group's liabilities connected with insurance comprised over 90% of the total liabilities.

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. All financial assets are measured as Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVOCI), or amortized cost.

IFRS 9 also introduces an impairment model for financial instruments not measured at FVTPL 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.

There will be no significant impact on the Group's other financial assets and liabilities on transition to IFRS 9.

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: financial, including credit, liquidity, market, and insurance risk. Risks falling within these types may affect a number of key metrics including those relating to the consolidated statement of financial position 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.

A. FINANCIAL RISK

i) Credit risk

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

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

- Holding a diversified investment portfolio that focuses on quality of investment. The portfolio is monitored and reviewed regularly by management's Investment Committee and by the Board of Director's Finance, Compensation, and Corporate Governance Committee;
- Investment guidelines are in place that require the purchase of only investment-grade assets and minimise undue concentration of assets in any single issuer, industry group, asset class or credit rating, unless required by local law or regulation;
- 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.

(in thousands of Bermuda dollars)

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.

	2022 $	2021 $
Cash and cash equivalents	43,655	55,417
Regulatory assets	19,961	20,139
Fixed income securities	36,055	39,477
Insurance receivables and other assets	69,652	66,505
Amounts due from affiliates	18,834	11,484
Reinsurance assets	105,006	98,450
Total	**293,163**	**291,472**

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:

	2022 $	2022 $	2021 $	2021 $
Assets held in:	Investments	Regulatory Assets	Investments	Regulatory Assets
Fixed income securities issued or guaranteed by:				
Financials	12,157	3,187	12,599	3,483
Government	5,847	6,943	4,528	7,789
U.S. Treasury and other agencies	9,262	831	10,289	355
Utilities and energy	2,320	727	3,747	-
Consumer staples and discretionary	3,444	510	4,208	303
Telecom	1,712	-	2,579	-
Computer technology products and services	400	883	362	942
Industrials and materials	583	-	687	-
Other	330	-	478	-
Total Fixed income securities	**36,055**	**13,081**	**39,477**	**12,872**

	2022 $	2022 $	2021 $	2021 $
Assets held in:	Investments	Regulatory Assets	Investments	Regulatory Assets
United States	27,656	4,737	29,590	3,480
Canada	2,363	321	1,746	360
Northern Europe	905	514	1,347	875
Asia-Pacific	1,094	1,095	1,194	723
United Kingdom	1,337	434	1,285	416
Caribbean	2,126	5,980	3,363	6,706
Other	574	-	952	312
Total Fixed income securities	**36,055**	**13,081**	**39,477**	**12,872**

(in thousands of Bermuda dollars)

Credit quality of financial assets

The credit quality of financial assets is assessed quarterly 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.

As at 31 December 2022:

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash equivalents	2,738	15,903	9,725	13,939	-	1,350	**43,655**
Regulatory assets	1,829	453	4,695	2,628	6,701	3.655	**19,961**
Fixed income securities	615	16,690	11,975	6,578	197	-	**36,055**
Total	**5,182**	**33,046**	**26,395**	**23,145**	**6,898**	**5,005**	**99,671**

As at 31 December 2021:

	AAA $	AA $	A $	BBB $	BB and lower $	Not rated $	Total $
Cash and cash Equivalents*	10,350	14,242	9,776	18,979	-	2,070	**55,417**
Regulatory assets	2,153	2,226	2,667	2,403	6,365	4,325	**20,139**
Fixed income securities	580	15,886	16,291	6,448	272	-	**39,477**
Total	**13,083**	**32,354**	**28,734**	**27,830**	**6,637**	**6,395**	**115,033**

**Cash and cash equivalents has been restated to match current year presentation*

The Group's reinsurance panel consists of over 47 reinsurance companies, the majority of which are rated A- or better by A.M. Best. Any exceptions to this are approved by the Group Security Committee.

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;
- Investments are graded internally on a liquidity level (1 to 4) and the Group looks to maintain adequate levels in highly liquid (1 and 2) securities;
- The ability of the Group's subsidiaries in certain jurisdictions to pay dividends and transfer funds is regulated. The Group maintains appropriate dividend and capital policies to ensure movement of cash flow through the Group as needed;
- Arrangements with reinsurers are made to ensure that recoverables are received in a timely fashion in the event of a liquidity crisis.

(in thousands of Bermuda dollars)

The maturity profile of financial assets at 31 December 2022 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	6,465	8,561	6,361	14,668	36,055	0.21% - 7.17%
Regulatory assets	8,994	5,243	2,137	3,587	19,961	1.5% - 6.95%
Insurance receivables and other assets	69,652	-	-	-	69,652	0%
Reinsurance assets	105,006	-	-	-	105,006	0%
Total	**190,117**	**13,804**	**8,498**	**18,255**	**230,674**	
Percent of total	**82.4%**	**6.0%**	**3.7%**	**7.9%**	**100.0%**	

The maturity profile of financial assets at 31 December 2021 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Fixed income securities	4,520	10,058	10,733	14,166	39,477	0.06% - 6.21%
Regulatory assets	8,142	6,906	1,197	3,893	20,139	0% - 6.95%
Insurance receivables and other assets	66,505	-	-	-	66,505	0%
Reinsurance assets	98,450	-	-	-	98,450	0%
Total	**177,617**	**16,964**	**11,930**	**18,059**	**224,571**	
Percent of total	**79.1%**	**7.6%**	**5.3%**	**8.1%**	**100.0%**	

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

The maturity profile of liabilities at 31 December 2022 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	66,550	-	-	66,550
Insurance contract liabilities – net of reinsurance	47,708	-	-	47,708
Total	**114,258**	**-**	**-**	**114,258**

The maturity profile of liabilities at 31 December 2021 was as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	$	$	$	$
Other liabilities	67,600	-	-	67,600
Insurance contract liabilities – net of reinsurance	43,615	-	-	43,615
Total	**111,215**	**-**	**-**	**111,215**

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, Cayman, Bahamian or United States dollars;
- The Bermuda, Cayman and Bahamian 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;
- Investing in assets that are suitable for the products sold; 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.

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. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been $1,315 and $1,316 respectively (2021 - $1,556 and $1,534) higher/lower. The interest rate sensitivity impact was calculated using the modified 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 10% increase/decrease in the value of the Group's equity portfolio would increase/decrease the Group's comprehensive income by $5,243 (2021 - $6,069) and the Group's other components of equity by $nil (2021- $nil). The price risk sensitivity impact was calculated by using the ending balances in equity and funds at a 10% increase/decrease.

B. INSURANCE RISK

Types of risk

i) General insurance risk

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

General insurance risk in the Group arises from:

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

The majority of the general insurance business underwritten by the Group is of a short-term nature such as property, motor and marine insurances. The Group's general insurance exposures are located in Bermuda and throughout the Caribbean, climate change may impact the frequency and severity of tropical cyclone activity in the regions in which Group writes general insurance, which in turn may impact the frequency and severity of claims. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines.

Management of general insurance risks

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

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

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

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

Reinsurance strategy

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

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

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

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

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

Concentration risk

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

(in thousands of Bermuda dollars)

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

31 December 2022					
Territory		**Property** **$**	**Motor** **$**	**All Other** **$**	**Total** **$**
Bermuda					
	Gross	6,081	10,723	2,098	18,902
	Net	895	4,959	1,305	7,159
Cayman/Other Caribbean					
	Gross	17,900	8,931	5,243	32,074
	Net	1,588	6,573	3,162	11,323
Total					
	Gross	**23,981**	**19,654**	**7,341**	**50,976**
	Net	**2,483**	**11,532**	**4,467**	**18,482**

31 December 2021					
Territory		**Property** **$**	**Motor** **$**	**All Other** **$**	**Total** **$**
Bermuda					
	Gross	2,204	8,053	1,800	12,057
	Net	480	4,903	1,197	6,580
Cayman/Other Caribbean					
	Gross	22,541	7,153	5,061	34,755
	Net	1,343	5,576	3,320	10,239
Total					
	Gross	**24,745**	**15,206**	**6,861**	**46,812**
	Net	**1,823**	**10,479**	**4,517**	**16,819**

General insurance business claims reserving

Assumptions and methodology

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

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

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

The Group has claims departments dealing with the mitigation of risks surrounding known exposures. These departments investigate and adjust a majority of the claims. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The adequacy of the Group's general insurance claims provisions is ultimately overseen by the Board of

(in thousands of Bermuda dollars)

Directors.

The estimate of the ultimate liability arising from short term insurance contracts is a significant accounting estimate. These liabilities are divided into 2 categories: the provision for IBNR and the provision for the cost of reported claims not yet paid. Provisions are also made for adverse development and unallocated loss adjustment expenses.

The estimation of the IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR liability will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Assumptions are made around costs such as repairs, jury decisions, court interpretations and legislative changes. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management engages independent actuaries to assist them in making such estimates based on the Group's own loss history and relevant industry data.

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. Accident year basis is considered to be most appropriate for the business written by the Group.

All Locations Combined

Gross loss development:

Accident year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Estimate of ultimate claims cost:	$	$	$	$	$	$	$	$	$	$	$
At the end of accident year*	17,933	53,618	17,475	81,040	662,760	17,961	604,188	18,574	27,117	30,291	-
One year later	17,171	45,163	17,725	77,231	603,079	16,511	524,655	16,837	29,516	-	-
Two years later	16,081	44,157	16,716	78,486	595,127	15,413	531,747	16,687	-	-	-
Three years later	16,600	45,104	16,539	76,898	595,520	15,161	532,644	-	-	-	-
Four years later	19,919	45,488	16,661	76,354	594,679	14,539	-	-	-	-	-
Five years later	17,918	45,115	16,647	76,481	592,325	-	-	-	-	-	-
Six years later	17,913	45,011	16,591	75,247	-	-	-	-	-	-	-
Seven years later	17,648	45,013	16,762	-	-	-	-	-	-	-	-
Eight years later	17,647	45,078	-	-	-	-	-	-	-	-	-
Nine years later	17,653	-	-	-	-	-	-	-	-	-	-
Current estimates of cumulative claims	17,653	45,078	16,762	75,247	592,325	14,539	532,644	16,687	29,516	30,291	1,370,742
Cumulative payments to date	(17,570)	(44,891)	(16,243)	(74,697)	(585,758)	(13,775)	(522,898)	(13,455)	(19,623)	(11,201)	(1,320,111)
Gross Liability recognised in the consolidated statement of financial position	83	187	519	550	6,567	764	9,746	3,232	9,893	19,090	50,631
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	345
Total reserve included in the consolidated statement of financial position	**83**	**187**	**519**	**550**	**6,567**	**764**	**9,746**	**3,232**	**9,893**	**19,090**	**50,976**

(in thousands of Bermuda dollars)

Net loss development:

Accident year Estimate of ultimate claims cost:	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	2021 $	2022 $	Total $
At the end of accident year*	11,974	16,469	11,651	20,733	25,680	13,858	20,671	12,723	15,652	16,117	-
One year later	11,679	16,207	11,672	19,129	25,334	12,720	19,580	11,729	16,154	-	-
Two years later	10,950	15,627	11,217	18,724	24,233	11,970	19,609	11,393	-	-	-
Three years later	11,216	15,607	11,231	18,565	23,914	11,727	19,643	-	-	-	-
Four years later	11,052	15,714	11,155	18,156	23,968	11,288	-	-	-	-	-
Five years later	10,959	15,676	11,138	18,221	23,851	-	-	-	-	-	-
Six years later	10,932	15,640	11,035	18,428	-	-	-	-	-	-	-
Seven years later	10,679	15,638	11,054	-	-	-	-	-	-	-	-
Eight years later	10,679	15,691	-	-	-	-	-	-	-	-	-
Nine years later	10,681	-	-	-	-	-	-	-	-	-	-
Current estimates of cumulative claims	10,681	15,691	11,054	18,428	23,851	11,288	19,643	11,393	16,154	16,117	154,300
Cumulative payments to date	(10,664)	(15,615)	(10,908)	(17,959)	(23,302)	(10,668)	(17,835)	(9,269)	(12,925)	(7,028)	(136,173)
Net Liability recognised in the consolidated statement of financial position	17	76	146	469	549	620	1,808	2,124	3,229	9,089	18,127
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	355
Total reserve included in the consolidated statement of financial position	17	76	146	469	549	620	1,808	2,124	3,229	9,089	18,482

*Estimates are presented on a completed accident year basis except for the current year which is on an uncompleted accident year basis.

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

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

The Bermuda Monetary Authority ("BMA") is the regulator of the Group. Under the laws and regulations of Bermuda, the Group must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2022 and 2021 the Group exceeded the minimum requirement.

Management monitors the adequacy of the Group's capital from the perspective of the Bermuda insurance regulations and the Bermuda Companies Act (1981) as well as the regulatory requirements of the other jurisdictions in which it operates. The Group's practice is to maintain the capitalisation of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements within the various jurisdictions.

The Group's investment policies emphasise the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimise the risk that investment activities pose to the Group's capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholder or issue new shares.

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

A. BERMUDA

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

The Act also requires the Group's Bermuda based insurance subsidiary, to meet minimum liquidity ratios whereby defined relevant assets must exceed 75% of defined relevant liabilities.

The Act limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiary. This insurance subsidiary 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 it 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 sheet, by 15% or more.

In addition, The Bermuda Companies Act (1981) limits the Group's ability to pay dividends and distributions to its shareholder if there are reasonable grounds for believing that the Group would be unable to pay its liabilities as they become due or if the realisable value of its assets would be less than the aggregate of its liabilities, issued share capital and share premium accounts.

B. CAYMAN ISLANDS

The Cayman Islands Monetary Authority ("CIMA") has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and IHIC. IHIC is required to maintain capital in excess of the greater of approximately $300 for domestic insurers or $1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes the minimum capital requirements for the IHIC's assets and liabilities on a risk basis and also provides for a margin of catastrophe. IHIC holds both a domestic insurer license and an external insurer Class A license. Additionally, IHIC has regulated insurance operations in several other jurisdictions.

As at 31 December 2022, the Group was in compliance with regulatory requirements in the various jurisdictions in which it operates.

5. FAIR VALUE MEASUREMENTS

A. FAIR VALUE METHODOLOGIES AND ASSUMPTIONS

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

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

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

For disclosure purposes, the fair value for fixed income securities classified as either held to maturity or 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.

Fair values for investment properties are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally at least once every three years. One property was externally valued as at 30 September 2020 and the other at 30 November 2021. Values are estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental values, assessed rental values or market rental values at a market discount rate; or
2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuation inputs include estimated rental value, rental growth rates, vacancy rates, discount rates, future operating expenses and terminal growth rates. Changes in valuation inputs can have a significant impact on fair value assessed.

B. FAIR VALUE HIERARCHY

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

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

i) Level 1

Fair value is based on quoted market prices for identical assets and liabilities in an active market at the 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 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:

(in thousands of Bermuda dollars)

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

iii) Level 3

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

31 December 2022	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	43,655	-	-	43,655
Regulatory assets				
Fixed income securities	619	12,462	-	13,081
Cash	6,880	-	-	6,880
Financial assets at FVTPL				
Fixed income securities	9,455	25,600	-	35,055
Equities	24,206	28,222	-	52,428
Total assets measured at fair value	**84,815**	**66,284**	**-**	**151,099**

31 December 2021	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Cash and cash equivalents	55,417	-	-	55,417
Regulatory assets				
Fixed income securities	355	12,517	-	12,872
Cash	7,267	-	-	7,267
Financial assets at FVTPL				
Fixed income securities	7,927	30,550	-	38,477
Equities	29,333	31,361	-	60,694
Total assets measured at fair value	**100,299**	**74,428**	**-**	**174,727**

During the current and prior year there were no transfers between Levels 1 and 2 and no assets or liabilities measured at fair value in Level 3.

(in thousands of Bermuda dollars)

D. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

31 December 2022	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	966	-	966
Investment properties	-	-	36,800	36,800
Total assets not measured at fair value	**-**	**966**	**36,800**	**37,766**

31 December 2021	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Fixed income securities	-	1,071	-	1,071
Investment properties	-	-	36,800	36,800
Total assets not measured at fair value	**-**	**1,071**	**36,800**	**37,871**

As at 31 December 2022 (and 2021) there are no liabilities disclosed (but not measured) at fair value.

6. CASH AND CASH EQUIVALENTS

	2022 $	2021 $
Cash at bank and in hand	42,098	54,238
Short-term bank deposits	1,557	1,179
Total	**43,655**	**55,417**

7. REGULATORY ASSETS

	2022 $	2021 $
Regulatory assets		
- Fixed income securities	13,081	12,872
- Cash	6,880	7,267
Total	**19,961**	**20,139**

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

(in thousands of Bermuda dollars)

8. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2022		2021	
	Carrying amount $	Fair Value $	Carrying Amount $	Fair Value $
At fair value through profit and loss				
- Fixed income securities	35,055	35,055	38,477	38,477
- Equities	52,428	52,428	60,694	60,694
Held-to-maturity				
- Fixed income securities	1,000	966	1,000	1,071
Total	**88,483**	**88,449**	**100,171**	**100,242**

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

	2022			2021		
	Total Fair Value $	SPPI $	Non-SPPI $	Total Fair Value $	SPPI $	Non-SPPI $
Held-to-maturity						
- Fixed income securities	966	966	–	1,071	1,071	–
Total	**966**	**966**	**–**	**1,071**	**1,071**	**–**

B. INVESTMENT RESULT

	2022 $	2021 $
Interest income		
Fixed income securities – at FVTPL	1,235	1,127
Bank deposits	131	82
	1,366	**1,209**
Dividend income		
Equities – at FVTPL	558	542
	558	**542**
Net realized gains/(losses) on sale of investments		
Equities – at FVTPL	(149)	657
Fixed income securities – at FVTPL	(512)	219
Regulatory assets – at FVTPL	(26)	(28)
	(687)	**848**
Change in fair value arising from		
Fixed income securities	(3,766)	(925)
Equities	(5,270)	4,191
Regulatory assets	(813)	(973)
	(9,849)	**2,293**
Total Investment result	**(8,612)**	**4,892**

(in thousands of Bermuda dollars)

9. INSURANCE RECEIVABLES AND OTHER ASSETS

	2022 $	2021 $
Insurance receivables *	62,917	59,270
Reinsurance receivables	3,626	4,825
Accounts receivable	1,769	1,393
Accrued investment income	571	541
Tenant allowances**	769	476
Total	**69,652**	**66,505**

**Insurance receivables are net of provisions for bad debt of $1,375 (2021 - $1,066).*
***2021 balance of $476 tenant allowance were reclassified from investment properties*

10. DEFERRED ACQUISITION COSTS

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

	2022 $	2021 $
At 1 January	11,577	10,369
Recognised deferred acquisition costs	30,918	30,033
Amortisation charge through income	(29,505)	(28,825)
At 31 December	**12,990**	**11,577**

11. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2022 $	2021 $
Claims reported and adjustment expenses recoverable	20,621	17,818
Unearned premiums ceded	72,512	68,457
Claims incurred but not reported recoverable	11,873	12,175
Total reinsurance assets	**105,006**	**98,450**

12. INVESTMENT PROPERTIES

	2022 $	2021 $
Cost	37,422	36,180
Accumulated depreciation	(15,590)	(14,602)
Net book value	**21,832**	**21,578**
Year ended 31 December		
At beginning of year	21,578	20,712
Net additions and capital improvements	1,242	1,792
Depreciation	(988)	(926)
Closing net book value	**21,832**	**21,578**

**2021 balance of $476 additions were reclassified to insurance receivables and other assets*

Investment properties located in Bermuda consist of 30 Woodbourne, owned by Scarborough, a 60% owned subsidiary, and Exchange House, owned by Barr's Bay, a 100% owned subsidiary.

At 31 December 2022, investment properties with a net book value of $21,832 (2021 - $21,578) were estimated to be valued at $36,800 (2021 - $36,800) on the basis of their estimated open market value for existing use. During the year ended 31 December 2022 no investment properties' carrying values exceeded their market value, which resulted in $Nil impairment for the year ended 31 December 2022 ($Nil for 31 December 2021).

(in thousands of Bermuda dollars)

The Group has entered into non-cancellable operating leases on space within several of the Group's investment properties as a lessor. Rental income generated from these investment properties during the year amounted to $1,929 (2021 - $2,744). Operating expenses incurred in support of generating rental income from investment properties were $34 (2021 - $718).

13. PROPERTY AND EQUIPMENT

A. Property and equipment comprises:

	Land and buildings $	Furniture, Equipment and leasehold improvements $	Computer Hardware $	Motor Vehicles $	Total $
At 1 January 2021					
Cost	16,058	3,361	1,483	115	21,017
Accumulated amortisation	(3,913)	(2,729)	(1,245)	(101)	(7,988)
Net book value	**12,145**	**632**	**238**	**14**	**13,029**
Year ended 31 December 2021					
Additions	274	16	21	-	311
Disposals	(87)	(189)	-	-	(276)
Disposals – accumulated amortisation	-	138	-	-	138
Amortisation charge	(435)	(138)	(160)	(9)	(742)
Closing net book value	**11,897**	**459**	**99**	**5**	**12,460**
At 31 December 2021					
Cost	16,245	3,188	1,504	115	21,052
Accumulated amortisation	(4,348)	(2,729)	(1,405)	(110)	(8,952)
Net book value	**11,897**	**459**	**99**	**5**	**12,460**
Year ended 31 December 2022					
Additions	227	180	77	-	484
Disposals	(1)	(137)	(1,185)	-	(1,323)
Disposals – accumulated amortisation	-	137	1,185	-	1,322
Amortisation charge	(444)	(137)	(80)	(4)	(665)
Closing net book value	**11,679**	**502**	**96**	**1**	**12,278**
At 31 December 2022					
Cost	16,471	3,231	396	115	20,213
Accumulated amortisation	(4,792)	(2,729)	(300)	(114)	(7,935)
Net book value	**11,679**	**502**	**96**	**1**	**12,278**

B. Leases:

This note provides information for leases where the Group is a lessee. For leases where the Group is a lessor, see note 12.

(in thousands of Bermuda dollars)

i) Amounts recognised in the consolidated statement of financial position:

	2022 $	2021 $
Right-of-use assets		
Land and buildings	270	316
Furniture, equipment and leasehold improvements	-	-
	270	**316**
Lease liabilities		
Other liabilities	298	340
	298	**340**

Additions to the right-of-use assets during the 2022 financial year were $Nil.

ii) Amounts recognised in the consolidated statement of income:

	2022 $	2021 $
Amortisation charge of right-of-use assets		
Land and buildings	46	45
Furniture, equipment and leasehold improvements	-	10
	46	**55**
Interest expense	**16**	**21**
Expense relating to leases of low-value assets (included in operating expenses)	**72**	**91**

The total cash outflow for leases in 2022 was $133.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

iii) The maturity profile of right-of-use liabilities at 31 December 2022 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Right-of-use liabilities	44	254	-	298

14. INCOME TAXES

Income tax is calculated and payable on the profits earned in jurisdictions with corporate tax requirements. The Group is subject to income tax in Antigua 25%, Barbados 2%, Dominica 25%, Grenada 28%, St. Kitts & Nevis 33%, St. Lucia 30%, St. Maarten 34.5%, St. Vincent 30% and US Virgin Islands 23.1%. The Company is domiciled in Bermuda and is exempt from taxation on income earned in Bermuda and other Caribbean jurisdictions.

(in thousands of Bermuda dollars)

A. INCOME TAX

The income tax expense comprises:

	2022 $	2021 $
Current tax expense	373	264
Deferred tax	-	-
Total Income tax expense	**373**	**264**

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

	2022 $	2021 $
IHIC's (loss) / income before corporation tax	(3,940)	1,837
Tax calculated at an effective tax rate of 9.5%	412	116
Prior year adjustments	-	16
Income not subject to tax	(32)	(34)
Expenses not deductible for tax	-	-
Tax under accrual	(7)	166
Current tax expense	**373**	**264**

B. DEFERRED TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

	2022 $	2021 $
Deferred tax assets:		
Net unearned premium	158	158
Deferred ceding commissions	407	407
Outstanding claims	16	16
Net operating loss carried forward	485	485
Gross deferred tax asset	**1,066**	**1,066**
Deferred tax liabilities:		
Deferred acquisition costs	**(690)**	**(690)**
Net deferred tax asset	**376**	**376**

C. TAX RECOVERABLE

	2022 $	2021 $
Tax recoverable at beginning of the year	1,196	1,208
Tax payments made	-	43
Current tax expense for the year	-	(25)
Tax over accrual	(2)	(30)
Other	-	-
Total tax recoverable at end of the year	**1,194**	**1,196**

(in thousands of Bermuda dollars)

	2022 $	2021 $
Tax payable at beginning of the year	(60)	(92)
Tax payments made	84	241
Current tax expense for the year	(379)	(59)
Tax under / (over) accrual	8	(134)
Other	(28)	(16)
Total tax payable at end of the year	**(375)**	**(60)**
Net tax recoverable at the end of year	**819**	**1,136**

D. IMPACT TO OTHER COMPREHENSIVE INCOME

There was no tax (charge) credit relating to components of OCI.

15. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

			Finite life		Indefinite life	
	Customer relationships & contracts $	Distribution channels $	Brands $	Software development costs $	Goodwill $	Total $
At 1 January 2021						
Cost	6,550	14,535	2,040	24,720	5,607	53,452
Accumulated amortisation	(3,878)	(12,688)	(2,040)	(14,841)	-	(33,447)
Net book value	**2,672**	**1,847**	**-**	**9,879**	**5,607**	**20,005**
Year ended 31 December 2021						
Additions	-	-	-	50	-	50
Disposal	-	-	-	(22)	-	(22)
Disposal (accumulated amortisation)	-	-	-	22	-	22
Amortisation	(671)	(1,450)	-	(1,681)	-	(3,802)
Impairment losses	-	-	-	(5)	-	(5)
Closing net book value	**2,001**	**397**	**-**	**8,243**	**-**	**16,248**
At 31 December 2021						
Cost	6,550	14,535	2,040	24,743	5,607	53,475
Accumulated amortisation	(4,549)	(14,138)	(2,040)	(16,500)	-	(37,227)
Net book value	**2,001**	**397**	**-**	**8,243**	**5,607**	**16,248**
Year ended 31 December 2022						
Additions	-	-	-	496	-	496
Disposal		-	-	(7,862)	-	(7,862)
Disposal (accumulated amortisation)	-	-	-	7,862	-	7,862
Amortisation	(558)	(397)	-	(1,617)	-	(2,572)
Impairment losses	-	-	-	(28)	(5,400)	(5,428)
Closing net book value	**1,443**	**-**	**-**	**7,094**	**(5400)**	**8,744**
At 31 December 2022						
Cost	6,550	14,535	2,040	17,349	207	40,681
Accumulated amortisation	(5,107)	(14,535)	(2,040)	(10,255)	-	(31,937)
Total net book value	**1,443**	**-**	**-**	**7,094**	**207**	**8,744**
Remaining weighted average amortisation period in years	**2.2**	**-**	**-**	**4.1**	**n/a**	

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

(in thousands of Bermuda dollars)

A. Goodwill

The following is a summary of the goodwill:

	2022 $	2021 $
IHIC	-	5,400
BF&M Brokers	207	207
TOTAL	**207**	**5,607**

Goodwill primarily represented the excess of the cost of IHIC at acquisition over the fair value of the net assets acquired. The goodwill at acquisition was allocated to the IHIC operation which is identified as a separate Cash Generating Unit "CGU". Goodwill is assessed for impairment as per the accounting policy described in Note 2.J, by comparing the carrying amount of the CGU against its recoverable amount. The recoverable amount of the CGU has been determined based on a value-in-use calculation, which is the discounted present value of future cash flows expected to be derived from the CGU. These calculations use pre-tax cash flow projections based on the 2023 financial business plan approved by management and estimates of cash flows for the subsequent five years to which a terminal value is then calculated. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. A discount rate of 14.95% (2021 – 12.75%) was applied reflecting the nature of the environment for the CGU and the evolution of the business post acquisition. A terminal growth rate of 2.00% (2021 – 2.50%) was used which represents the estimated long-term nominal growth rate of the economy.

As a result of numerous economic factors including an increase in discount rates and lower terminal growth rates due to worldwide market volatility, as well as anticipated pricing and capacity changes in the property catastrophe reinsurance market, management has reassessed its future expectations, resulting in an impairment charge with respect to goodwill. For the year ended 31 December 2022, the Group has recorded an impairment charge of $5,400, fully eliminating the goodwill balance it had been carrying related to IHIC.

B. SOFTWARE DEVELOPMENT COSTS

Costs associated with the development of information systems 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 expected useful life. Annually, the Group reviews its software development costs for evidence of impairment. For significant software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in note 2(I)(ii).

(in thousands of Bermuda dollars)

16. OTHER LIABILITIES

	2022 $	2021 $
Payables and accrued expenses	4,940	3,766
Insurance balances payable	46,550	50,103
Deferred commission income	14,762	13,391
Lease liabilities	298	340
Total tax recoverable at end of the year	**66,550**	**67,600**

Insurance balances payable include amounts payable to agents, reinsurers and brokers.

17. RETIREMENT BENEFIT OBLIGATIONS

A. DEFINED CONTRIBUTION PENSION PLAN

BF&M has established a defined contribution pension plan for eligible qualifying employees. Contributions by the Group to the defined contribution plan 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 plan is not reflected in the tables below. An expense of $335 (2021 - $329) equating to the service cost for the year for these employees was reported during the year.

B. POST RETIREMENT MEDICAL PLAN

BF&M 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 2022 were $105 (2021 - $106).

C. DEFINED BENEFIT PENSION PLAN

The Group also sponsors a defined benefit pension plan for eligible employees in Bermuda, which follows the National Pension Scheme (Occupational Pensions) Act 1998 regulatory framework. This plan is 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 BF&M Group. Responsibility for governance of the plan including investment and contributions lies jointly with the BF&M Group and the Trustees of the pension fund.

Under the plan, 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 BF&M Group during 2022 were $nil (2021 - $nil).

The BF&M Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2021.

(in thousands of Bermuda dollars)

The following table provides a summary of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2022 and 2021:

	Defined benefit pension plan		Medical benefit plan	
	2022	2021	2022	2021
Changes in defined benefit obligation	$	$	$	$
Balance - beginning of year	24,271	24,212	1,849	2,308
Current service cost	106	129	-	-
Interest expense	512	420	26	25
Actuarial (gains) and losses due to changes in:				
Experience	(130)	219	(141)	(302)
Economic assumption changes	(3,587)	(1,388)	(121)	(76)
Changes in asset ceiling, excluding amounts included in interest expense	944	1,762	-	-
Benefits paid	(1,108)	(1,083)	(105)	(106)
Total Defined benefit obligation - End of year	**21,008**	**24,271**	**1,508**	**1,849**

	Defined benefit pension plan		Medical benefit plan	
	2022	2021	2022	2021
Changes in plan assets	$	$	$	$
Fair value – beginning of year	25,265	25,218	-	-
Return on plan assets	(2,305)	1,162	-	-
Employer contributions	-	-	105	106
Plan expenses	(26)	(32)	-	-
Benefits paid	(1,108)	(1,083)	(105)	(106)
Total Fair value of plan assets - End of year	**21,826**	**25,265**	**-**	**-**
Net Defined (benefit) liability recognized in the Consolidated Statement of Financial Position	**(818)**	**(994)**	**1,508**	**1,849**

Amounts recognised in respect of these defined benefit plans:

	Defined benefit pension plan		Medical benefit plan	
Net benefit cost recognised in Consolidated Statement of Income	2022 $	2021 $	2022 $	2021 $
Current service cost	106	129	-	-
Interest expense	512	420	26	25
Expected return on plan assets	(575)	(433)	-	-
Administrative expense	26	32	-	-
Interest on effect of asset ceiling	47	-	-	-
Total Net benefit cost	**116**	**148**	**26**	**25**

(in thousands of Bermuda dollars)

Re-measurement effects recognized in OCI	Defined benefit pension plan 2022 $	2021 $	Medical benefit plan 2022 $	2021 $
Return on plan assets (excluding amount included interest income)	2,880	(729)	-	-
Actuarial gains and losses due to change in:				
Experience	(130)	220	(141)	(302)
Economic assumptions	(3,588)	(1,388)	(121)	(76)
Adjustment for restrictions on the defined benefit asset	897	1,761	-	-
Total Net benefit cost	**59**	**(136)**	**(262)**	**(378)**

Accrued benefit obligation and plan assets are as follows:

At 31 December 2022	Total $
Present value of obligation	22,516
Fair value of plan assets	(21,826)
Total	**690**

At 31 December 2021	Total $
Present value of obligation	26,120
Fair value of plan assets	(25,265)
Total	**855**

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

	2022 Quoted $	Unquoted $	Total $	2021 Quoted	Unquoted	Total $
Equity and fund instruments	9,840	-	9,840	11,713	-	11,713
Fixed income instruments	11,292	-	11,292	12,510	-	12,510
Real estate	-	382	382	-	701	701
Other	-	312	312	-	341	341
Total Net benefit cost	**21,132**	**694**	**21,826**	**24,223**	**1,042**	**25,265**

Pension and medical plan assets include the BF&M Group's ordinary shares with a fair value of $1,176 (2021 - $1,288).

(in thousands of Bermuda dollars)

Risk

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

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

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

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

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

Actuarial assumptions

	Defined benefit pension plan		Medical benefit plan	
	2022 %	2021 %	2022 %	2021 %
Benefit cost during the year:				
Discount rate	4.80	2.65	4.50	2.25
Compensation increase	3.30	1.15	-	-
Medical claims inflation*	-	-	5.00	4.50
Defined benefit obligation at end of year:				
Discount rate	4.80	2.65	4.50	2.25
Compensation increase	3.30	2.15	-	-
Medical claims inflation	-	-	5.00	4.50

The significant weighted-average assumptions as of 31 December 2022 and 2021 are:

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. As the defined benefit plan is 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 plan	
	2022 in years	2021 in years	2022 in years	2021 in years
Male	20.53	20.46	20.53	20.46
Female	22.54	22.50	22.54	22.50

Significant judgement is used in setting the assumptions used to calculate the BF&M Group's retirement benefit obligations. The sensitivity analysis has been determined based on reasonably possible changes of the significant assumptions occurring at the end of the reporting period. Changes in trend rate assumptions by 1%

(in thousands of Bermuda dollars)

either direction will change the retirement benefit obligation as follows:

	Defined benefit pension plan		Medical benefit plan	
	2022 Increase $	2022 Decrease $	2022 Increase $	2022 Decrease $
Discount rate	1,592	1,891	96	108
Compensation increase	64	62	n/a	n/a
Average life expectancy	539	981	98	93

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

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

For the funded plan, the BF&M 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 scheme. The BF&M Group's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

The BF&M 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 BF&M 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 December 31, 2022 are $98.

The weighted average duration of the defined benefit obligation is 9.73 (2021 – 10.99) years.

The weighted average duration of the medical plan obligation is 6.80 (2021 – 7.89) years.

Future benefit payments

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

	2023 $	2024 $	2025 $	2026 $	2027-2037 $
Defined benefit pension	1,203	1,205	1,297	1,360	16,797
Medical benefit plan	98	85	71	57	812
Total future payments	**1,301**	**1,290**	**1,368**	**1,417**	**17,609**

(in thousands of Bermuda dollars)

18. INSURANCE CONTRACT LIABILITIES

A. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2022 Gross	2022 Reinsurance	2022 Net	2021 Gross	2021 Reinsurance	2021 Net
	$	$	$	$	$	$
Claims reported and loss adjustment expenses	33,603	(20,621)	12,982	29,860	(17,818)	12,042
Unearned premiums	101,738	(72,512)	29,226	95,253	(68,457)	26,796
Claims incurred but not reported	17,373	(11,873)	5,500	16,952	(12,175)	4,777
Total Insurance contract liabilities	**152,714**	**(105,006)**	**47,708**	**142,065**	**(98,450)**	**43,615**

B. CHANGES IN INSURANCE CONTRACT LIABILITIES

	2022 Gross	2022 Reinsurance	2022 Net	2021 Gross	2021 Reinsurance	2021 Net
	$	$	$	$	$	$
At 1 January						
Claims and adjustment expenses	29,860	(17,818)	12,042	44,417	(34,173)	10,244
Claims incurred but not reported	16,952	(12,175)	4,777	20,954	(15,935)	5,019
Total 1 January	46,812	(29,993)	16,819	65,371	(50,108)	15,263
Cash paid for claims settled in year	(25,324)	11,212	(14,112)	(49,980)	36,771	(13,209)
Increase in liabilities:						
Arising from current-year claims	29,927	(14,178)	15,749	26,717	(11,467)	15,250
Arising from prior-year claims	(439)	465	26	4,704	(5,189)	(485)
Total at 31 December	**50,976**	**(32,494)**	**18,482**	**46,812**	**(29,993)**	**16,819**
Claims and adjustment expenses	33,603	(20,621)	12,982	29,860	(17,818)	12,042
Claims incurred but not reported	17,373	(11,873)	5,500	16,952	(12,175)	4,777
Total at 31 December	**50,976**	**(32,494)**	**18,482**	**46,812**	**(29,993)**	**16,819**

The fair value of the net provision for claims and adjustment expenses of $18,482 (2021 - $16,819) is $17,610 (2021 - $16,429). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

C. UNEARNED PREMIUM LIABILITY

	2022 Gross	2022 Reinsurance	2022 Net	2021 Gross	2021 Reinsurance	2021 Net
	$	$	$	$	$	$
At 1 January	95,253	(68,457)	26,796	87,308	(63,130)	24,178
Premiums written during the year	243,291	(197,598)	45,693	235,729	(189,754)	45,975
Premiums earned during the year	(236,806)	193,543	(43,263)	(227,784)	184,427	(43,357)
Total at 31 December	101,738	(72,512)	29,226	95,253	(68,457)	26,796
Movement during the year, net of Acquisition costs	**(6,485)**	**4,055**	**(2,430)**	**(7,946)**	**5,328**	**(2,618)**

(in thousands of Bermuda dollars)

19. EQUITY

A. SHARE CAPITAL

	2022 $	2021 $
10,000,000 (2021 – 10,000,000) common shares of a par value of $1 each	10,000	10,000
Issue and fully paid – common shares of a par value of $1 each	10,000	10,000

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. No shares were issued in 2022 or 2021.

B. CONTRIBUTED SURPLUS

This represents additional paid in capital.

C. ACCUMULATED OTHER COMPREHENSIVE LOSS

This consists of actuarial gains and losses on employee benefit plans.

20. COMMISSION AND OTHER INCOME

This includes commission earned from reinsurers.

	2022 $	2021 $
Commission income	35,495	35,162
Fee income	704	534
IT asset usage recharge	371	375
Total Commission and other income	**36,570**	**36,071**

21. INSURANCE CONTRACT BENEFITS AND EXPENSES

	2022 $	2021 $
Gross claim and adjustment expenses paid	25,324	49,980
Reinsurance recoveries	(11,212)	(36,771)
Change in insurance contract liabilities	4,164	(18,559)
Change in reinsurance assets	(2,501)	20,115
Total claim and claim adjustment expenses	**15,775**	**14,765**

(in thousands of Bermuda dollars)

22. OPERATING EXPENSES

	2022 $	2021 $
Corporate head office allocations	10,758	9,523
Wages and salaries	9,725	9,649
IT maintenance contracts	7,369	6,711
Bank charges and foreign currency purchase tax	1,395	1,120
Professional and consulting fees	1,165	1,185
Office, rent building and utilities costs	1,072	1,206
Advertising and business development	602	674
Compliance, legal and regulatory	567	399
Bad debt expense / (recovery)	456	(554)
Share expenses	452	336
Office and administration expenses	151	148
Travel	113	52
Membership and subscriptions	39	35
Training and development	28	35
Other	21	28
Total operating expenses	**33,913**	**30,547**

23. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2022 $	2021 $
Items that will not be subsequently reclassified to profit or loss		
Remeasurement of post-employment benefit obligation		
Balance – beginning of year	(532)	(1,023)
Re-measurement of post-employment benefit obligation	203	514
Non-controlling interest	(9)	(23)
Balance – end of year	(338)	(532)
Total	**(338)**	**(532)**

(in thousands of Bermuda dollars)

24. RELATED PARTIES

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

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

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2022 $	2021 $
Sales of insurance contracts and pension services:		
- Key management	118	115
Purchase of services:		
- Key management	121	158

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2022 $	2021 $
Salaries and other short-term employee benefits	507	380
Post-employment benefits	15	13
Share based payments	39	-
Total	561	393

C. DUE TO RELATED PARTIES

	2022 $	2021 $
Due to ultimate parent	(17,378)	(24,617)
Due to affiliates	-	-
Due from ultimate parent	18,834	11,484
Due from affiliates	-	-

D. SELF-INSURANCE

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

(in thousands of Bermuda dollars)

25. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

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

	Scarborough / Barr's Bay *	
	2022	2021
Summarised statement of financial position	$	$
Total assets	18,306	19,505
Total liabilities	1,761	1,692
Total Net assets	**16,545**	**17,813**

	Scarborough / Barr's Bay *	
	2022	2021
Summarised statement of income	$	$
Rental income	1,267	2,439
Total income	1,267	2,439
Total benefits & expenses	1,057	1,195
Income before taxes	210	1,244
Total Net income after taxes	**210**	**1,244**

	Scarborough / Barr's Bay *	
	2022	2021
Summarised statement of comprehensive income	$	$
Items that will not be reclassified to profit or loss	23	58
Items that may be subsequently reclassified to profit or loss	-	-
Total comprehensive income	**233**	**1,302**
Total income attributable to non-controlling interest	**84**	**497**

	Scarborough / Barr's Bay *	
	2022	2021
Summarised statement of cash flows	$	$
Net cash generated from operating activities	838	2,678
Net cash used in investing activities	(1,217)	(2,230)
Cash dividends paid	(1,500)	(2,000)
Cash at date of acquisition of non-controlling interest	-	(2,762)
Net increase (decrease) in cash and cash equivalents	**(1,879)**	**(4,314)**
Cash and cash equivalents at beginning of year	**2,656**	**6,970**
Cash and cash equivalents at end of year	**777**	**2,656**

** Barr's Bay became a wholly owned subsidiary in 2021, amounts above for 2021 relate to the period up to the date of acquisition. 2022 is Scarborough only.*

(in thousands of Bermuda dollars)

26. COMMITMENTS AND CONTINGENCIES

A. OPERATING LEASES

i) Group as Lessor

The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings. These agreements include an extension option and terminate between 2023 and 2033. The future minimum lease payments receivable are as follows:

	2022 $	2021 $
No later than 1 year	2,828	1,886
Later than 1 year and no later than 5 years	8,129	6,351
Later than 5 years	2,475	-
Total	**13,432**	**8,237**

B. COMMITMENTS

The Group has commitments made in the normal course of business that are to be disbursed upon fulfilment of certain contract conditions. $659 is payable in 2023 to fulfil contracts which have fixed and determinable amounts. For years 2023 and 2024, the Group has committed in principle to making donations to various local charities. The amount to be disbursed is unknown but will be determinable on an annual basis subject to contract terms. The Group also expects capital expenditures related to renovation work on its investment properties.

C. CONTINGENCIES

The Group and its subsidiaries are from time to time subject to legal actions arising in the normal course of business. It is inherently difficult to predict the outcome of any of these proceedings with certainty and it is possible that an adverse resolution could have a material effect on the consolidated financial statements of the Group.

27. SUBSEQUENT EVENTS

A. CAYMAN EXPANSION

On 20 January 2023, IHIC received regulatory approval for the expansion of group life and disability insurance offerings in the Cayman Islands.