

**BF&M LIFE INSURANCE COMPANY LIMITED  
BAHAMAS BRANCH**

(Registered in Bahamas)

Financial Statements  
**31 December 2018**

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Responsibility for financial reporting  
For the year ended 31 December 2018

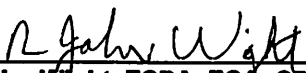
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The management of BF&M Life Insurance Company Limited ("the Company") is responsible for the preparation of the financial statements of BF&M Life Insurance Company Limited – Bahamas Branch ("the Branch") which are contained in this report. These financial statements have been prepared in accordance with International Financial Reporting Standards.

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

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

These financial statements have been authorised for issue. The Board of Directors has the power to amend these financial statements after issue, if required.

  
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**R. John Wight, FCPA, FCA, CPCU**  
BF&M Group President and Chief Executive Officer

  
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**Andrew Soares**  
Executive Vice President, Life and Health Insurance



## Independent auditor's report

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

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### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of BF&M Life Insurance Company Limited – Bahamas Branch (the Branch) as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### ***What we have audited***

The Branch's financial statements comprise:

- the statement of financial position as at December 31, 2018;
  - the statement of income for the year then ended;
  - the statement of changes in head office account for the year then ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the financial statements, which include a summary of significant accounting policies.
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### **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 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 Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.



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### **Responsibilities of management for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Branch'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 Branch'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 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 Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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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.*

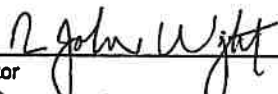
**Chartered Professional Accountants  
Hamilton, Bermuda  
April 17, 2019**

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
**Statement of Financial Position**  
**As at 31 December 2018**

*(In thousands of Bahamian dollars)*

	Notes	2018 \$	2017 \$
<b>Assets</b>			
Cash and cash equivalents	6	3,712	3,385
Accounts receivable	9	60	113
Insurance receivables	10	80	63
Regulatory deposit	7	2,580	2,298
Prepaid expenses		35	20
Policyholder loans		23	15
Property and equipment	11	96	93
<b>Total assets</b>		<b>6,586</b>	<b>5,987</b>
<b>Liabilities</b>			
Other liabilities	12	13	98
Insurance balances payable		152	204
Reinsurance liabilities	13	815	773
Insurance contract liabilities	14	3,054	3,160
<b>Total liabilities</b>		<b>4,034</b>	<b>4,235</b>
<b>Head office account</b>			
Head office account	3	2,552	1,752
<b>Total liabilities and head office account</b>		<b>6,586</b>	<b>5,987</b>

**Approved by the Board of Directors**

  
 Director  
 April 17, 2019  
 Date

  
 Director

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

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Statement of Income  
**For the year ended 31 December 2018**

*(in thousands of Bahamian dollars)*

	<b>Notes</b>	<b>2018</b> <b>\$</b>	<b>2017</b> <b>\$</b>
<b>Income</b>			
Gross premiums written		1,597	1,463
Reinsurance ceded		(176)	(222)
<b>Net premiums written</b>		<b>1,421</b>	<b>1,241</b>
Investment income	15	51	27
<b>Total income</b>		<b>1,472</b>	<b>1,268</b>
<b>Benefits and Expenses</b>			
Insurance contracts benefits and expenses	16	97	871
Commission expense		431	374
Operating expenses	17	749	761
Depreciation expense		15	14
<b>Total benefits and expenses</b>		<b>1,292</b>	<b>2,020</b>
<b>Net income (loss) for the year</b>		<b>180</b>	<b>(752)</b>

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

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Statement of Changes in Head Office Account  
**For the year ended 31 December 2018**

*(in thousands of Bahamian dollars)*

	Notes	2018 \$	2017 \$
<b>Balance - beginning of year</b>		1,752	1,849
Net profit (loss) for the year		180	(752)
Other head office net transactions	3	620	655
<b>Balance – end of year</b>		<b>2,552</b>	<b>1,752</b>

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



**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Statement of Cash Flows  
**For the year ended 31 December 2018**

*(in thousands of Bahamian dollars)*

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
<b>Net profit (loss) for the year</b>	180	(752)
<b>Adjustments for:</b>		
Investment income	(51)	(27)
Amortisation of property and equipment	15	14
<b>Changes in assets and liabilities</b>		
Insurance receivables	(222)	(148)
Accounts receivable	53	(87)
Prepaid expense	(15)	
Policyholder loans	(8)	(12)
Other liabilities	66	103
Insurance balances payable	177	263
Reinsurance liabilities	42	118
Insurance contract liabilities	(106)	385
Regulatory deposit	(282)	(27)
<b>Cash used in operations</b>	<u>(151)</u>	<u>(170)</u>
Interest received	51	27
<b>Net cash used in operating activities</b>	<u>(100)</u>	<u>(143)</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(18)	1
<b>Net cash used in investing activities</b>	<u>(18)</u>	<u>1</u>
<b>Cash flows from financing activities</b>		
Funding from head office	445	548
<b>Net cash generated from financing activities</b>	<u>445</u>	<u>548</u>
<b>Increase in cash and cash equivalents</b>	327	406
<b>Cash and cash equivalents – beginning of year</b>	<u>3,385</u>	<u>2,979</u>
<b>Cash and cash equivalents – end of year</b>	<u><b>3,712</b></u>	<u><b>3,385</b></u>

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

**BF&M LIFE INSURANCE COMPANY LIMITED  
BAHAMAS BRANCH**

Notes to Financial Statements

**For the year ended 31 December 2018**

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*(in thousands of Bahamian dollars)*

**1. NATURE OF THE BRANCH AND ITS BUSINESS**

BF&M Life Insurance Company Limited – Bahamas Branch (the “Branch”) is a branch of BF&M Life Insurance Limited (the “Company”) a company incorporated in Bermuda on 13 November 1990 and is a wholly-owned subsidiary of BF&M Limited (“BF&M”). The financial statements presented are for the individual Branch which operates in Bahamas. The Company has been authorised to transact life, health and annuity insurance business in the Bahamas from 10 December 2006 through the Branch. The Branch receives full financial support from the Company.

The Company is registered as a Dual – Class D and Class 3B insurer under The Bermuda Insurance Act 1978, amendments thereto and related regulations (“the Act”) and writes group and individual life, accident and health, pension and annuity business. The address of its registered office is 112 Pitts Bay Road, Pembroke, HM08, Bermuda.

The Company’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.

At this time the Branch only writes group and individual life and accident insurance.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these 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 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 financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss. The statement of financial position is presented in order of liquidity.

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Notes to Financial Statements  
**For the year ended 31 December 2018**

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*(in thousands of Bahamian dollars)*

**ii) Critical estimates, judgments and assumptions**

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

Key sources of estimation uncertainty and areas where significant judgments have been made and discussed throughout the notes to these financial statements include the actuarial assumptions used in the valuation of insurance contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Notes 2H and sensitivities are discussed in Note 5B.

**C. Foreign currency translation**

**i) Functional and presentation currency**

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). All amounts in the financial statements are in thousands of Bahamian dollars, which is the Branch's presentation currency.

**ii) Transactions and balances**

Monetary assets and liabilities denominated in currencies other than the functional currency of the Branch are translated into the functional currency using the rate of exchange prevailing at the statement of financial position's date. Income and expenses are translated at rates of exchange in effect on the transaction dates. Foreign exchange gains and losses if any are expensed on the statement of income.

**D. Cash and cash equivalents**

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

**E. Regulatory deposit**

Regulatory deposits are held with the Regulator as a legal requirement in order to provide services in Bahamas.

**F. Impairment of assets**

The Branch reviews the carrying value of its financial assets at each period end for evidence of impairment and reversal of previously recognised impairment losses.

When loans and receivables assets carried at amortised cost are impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. For all loans and receivables where an impairment loss has occurred, if any, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income. When an event occurring after the impairment was recognised causing the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the statement of income.

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Notes to Financial Statements  
**For the year ended 31 December 2018**

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*(in thousands of Bahamian dollars)*

**G. Property and equipment**

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

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

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

The assets' residual values and useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed. At December 31, 2018 no impairments have been required.

**H. Insurance contracts**

The Branch issues contracts that transfer insurance risk.

**i) Insurance contracts**

Insurance contracts are those contracts where the Branch (the insurer) has accepted significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Branch 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.

Life insurance contracts include term, whole life and universal life insurance contracts, and group life and accident insurance policies. The Branch holds whole life contracts which may be either participating or non-participating contracts.

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

**a. Reinsurance contracts held related to insurance contracts**

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

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

# **BF&M LIFE INSURANCE COMPANY LIMITED**

## **BAHAMAS BRANCH**

### Notes to Financial Statements

#### **For the year ended 31 December 2018**

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*(in thousands of Bahamian dollars)*

The benefits to which the Branch is entitled under its reinsurance contracts held are recognised net as reinsurance assets or liabilities. The 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 Branch assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Branch reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss if any in the statement of income.

#### **b. Insurance contract liabilities**

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

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

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

#### **ii) Receivables and payables related to insurance contracts**

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These receivables and payables are included in accounts receivable, insurance receivable, insurance balances payable, and insurance contract liabilities in the statement of financial position.

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

#### **I. Loans to policyholders**

Loans to policyholders are initially measured at fair value and subsequently carried at amortised cost and are fully secured by the policy values on which the loans are made.

#### **J. Revenue recognition**

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

##### **i) Premium income**

Premiums on most life insurance contracts are recognised as revenue when due from the policyholder.

**BF&M LIFE INSURANCE COMPANY LIMITED**  
**BAHAMAS BRANCH**  
Notes to Financial Statements  
**For the year ended 31 December 2018**

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(in thousands of Bahamian dollars)

**ii) Investment income**

Investment income is recorded on an accrual basis.

**K. Leases**

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

**3. HEAD OFFICE ACCOUNT**

This account is used by the Branch to account for all transactions with the Company as the head office. It is credited for all expenses paid by the head office on behalf of the Branch. It is debited for all cash collected, by the head office on behalf of the Branch. The net amount of these transactions totaled \$175 for the 2018 year (2017: \$107). During the year, the Branch received \$445 in cash from the Company to support its operations (2017: \$548). This account represents the net investment by the head office in the branch. The Branch has not been allocated any corporate shared cost by the Company.

**4. NEW AND REVISED ACCOUNTING STANDARDS**

**A. New and revised International Financial Reporting Standards adopted in 2018**

The Branch has applied the following standards and amendments for its annual reporting period commencing 1 January 2018:

**i) IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”), which replaces IAS 11- *Construction Contracts*, IAS 18 – *Revenue* and various interpretations. Amendments to IFRS 15 were issued in September 2015 and April 2016. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenues and cash flows from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 also provides guidance related to the costs to obtain and to fulfill a contract. IFRS 15 does not apply to insurance contracts, financial instruments and lease contracts. IFRS 15 requires entities to recognize revenue to reflect the transfer of goods or services to customers measured at the amount an entity expects to be entitled to in exchange for those goods and services. There was no impact to the Branch on adoption of this policy.

**ii) Amendments to IFRS 4 – Insurance Contracts**

In September 2016, the IASB issued Amendments to IFRS 4 which provides companies whose activities are predominantly related to insurance an optional temporary exemption from applying IFRS 9 – *Financial Instruments*. On 1 January, 2018 the Branch qualified and elected to take the deferral approach and as a result will continue to apply IAS 39 - *Financial Instruments: Recognition and Measurement*, the existing financial standard.

**B. New and revised International Financial Reporting Standards to be adopted in 2019**

The standards and interpretations that are issued, but not yet effective, are disclosed below. The Branch intends to adopt these standards in 2019:

## **BF&M LIFE INSURANCE COMPANY LIMITED**

### **BAHAMAS BRANCH**

Notes to Financial Statements

**For the year ended 31 December 2018**

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*(in thousands of Bahamian dollars)*

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

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

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

#### **C. New and revised International Financial Reporting Standards to be adopted in 2020 or later**

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

**IFRS 17 – Insurance Contracts (“IFRS 17”)** – This new standard was issued in May 2017 and supersedes IFRS 4 and related interpretations and is effective for periods beginning on or after 1 January 2021. Whereas IFRS 4 allows insurance entities to use their local Generally Accepted Accounting Principles when accounting for insurance contracts, IFRS 17 defines rules with the aim to increase the comparability of financial statements. The standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts.

In November 2018, the IAS tentatively decided to defer the effective date of IFRS 17 by one year to 1 January 2022. The proposed deferral is subject to IASB public consultation in 2019. The Branch is assessing the impact of this standard and expects that it will have a significant impact on the Branch’s Financial Statements beginning on or after 1 January 2021.

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

#### **5. MANAGEMENT OF FINANCIAL AND INSURANCE RISK**

Risk is managed at the Company level. The Company’s primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimizing 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 Branch’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.

# BF&M LIFE INSURANCE COMPANY LIMITED

## BAHAMAS BRANCH

### Notes to Financial Statements

#### For the year ended 31 December 2018

(in thousands of Bahamian dollars)

#### A. Financial Risks

##### i) Credit risk

Credit risk is the exposure that a counter-party to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Branch. Financial assets which potentially expose the Branch to credit risk mainly consist of cash and cash equivalents, regulatory deposits, insurance receivable, accounts receivable and policyholder loans.

All cash and cash equivalents are held with one financial institution, which has an A credit rating, in the Bahamas. The regulatory deposits are held with one financial institution in the Bahamas on behalf of the Bahamian Insurance Regulator. All reinsurance recoverable balances are recoverable from large reputable reinsurers.

Reinsurance is placed with well-established reinsurance companies with strong credit ratings. All major reinsurers are rated A or better with A.M. Best.

##### ii) Liquidity risk

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

- Management maintains levels of cash and short-term deposits within the Branch, which are sufficient to fulfill the Branch's short-term obligations;
- Short-term cash flow needs are adequately met by operating cash flows;
- In the event of a cash shortfall, funds will be transferred from the Company to the Branch.

The maturity profiles of the Branch'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 2018 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Other liabilities	13	-	-	13
Insurance balances payable	152	-	-	152
Insurance contract liabilities – net of reinsurance	176	-	3,693	3,869
<b>Total</b>	<b>341</b>	<b>-</b>	<b>3,693</b>	<b>4,034</b>

The maturity profile of liabilities at 31 December 2017 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Other liabilities	98	-	-	98
Insurance balances payable	204	-	-	204
Insurance contract liabilities – net of reinsurance	77	-	3,856	3,933
<b>Total</b>	<b>379</b>	<b>-</b>	<b>3,856</b>	<b>4,235</b>



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**iii) Interest rate risk**

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Interest rate risk is managed at the Company level.

**iv) 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 Branch is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Branch's assets, liabilities, and earnings are denominated in Bermuda, Bahamian or United States dollars;
- The Bermuda and Bahamian dollars are pegged to the United States dollar.

**B. Insurance risk**

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

***Management of life insurance risks***

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

The impact of insurance risk is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities and the asset liability management framework process. At the Company level the overall exposure to insurance risk is measured through management reporting, Dynamic Capital Adequacy Test ("DCAT"), and Bermuda Solvency Capital Requirement ("BSCR") analysis.

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

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

The individual life insurance risks are managed by the Company as follows:

- Mortality risks are mitigated by use of reinsurance. The Company selects reinsurers, from those approved by the Company, based on local factors, but assesses the overall programme to manage Company-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Company's appetite for credit risk.
- Longevity risk: The Company monitors the exposure to this risk and the capital implications to manage the impact on the Company-wide exposure and the capital funding that the Company may require as a consequence.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. The Company also implements specific initiatives to improve retention of policies which may otherwise lapse.

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- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss for and reputational damage to the Company. Guidelines have been developed to support the Company through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Company through the assessment of profitability and frequent monitoring of expense levels.

#### **Assumptions and methodologies**

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

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

#### **a. Mortality**

Mortality refers to the rates at which death is expected to occur for defined classes of insured. Management reviews the Company and Branch mortality experience annually, however, the portfolio of business is too small to form the basis for any internally produced mortality assumption. The Branch's mortality assumption is based on industry experience. The assumed mortality rates for life insurance contracts do not reflect any future improvement. For life products, a higher mortality would be financially adverse to the Branch.

#### **b. Investment Returns**

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

#### **c. Expenses**

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

#### **d. Lapse**

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

Policyholders may allow their policies to terminate prior to the end of the contractual period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options contained in the contract.

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Assumptions for termination experience on life insurance are based on industry and the Company's experience. Termination rates vary by plan, policy duration and method of premium payment. For universal life policies, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy.

#### **e. Premium payment patterns**

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

#### **f. Policyholder dividends**

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

#### **Sensitivity test analysis**

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

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

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

	Change in assumption	Increase in liability	
		2018	2017
		\$	\$
Mortality rate	+1%	7	7
Expenses	+10%	78	82
Termination rate	+10%	165	172

#### **Investment returns**

The Company's assets are notionally segmented to correspond to different liability categories for the Branch. For each segment, the projected notional asset and liability cash flows are used in the Canadian Asset Liability Method ("CALM") under several interest rate scenarios to determine the actuarial liabilities. The notional asset cash flows are reduced to provide for asset default losses.

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

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The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash outflows by approximately \$71 (2017 - \$74). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash outflows by approximately \$71 (2017 - \$74).

**C. Capital management and regulatory compliance**

The Company's policy is to maintain a strong capital base. The Company manages its capital to ensure continued ability to provide an adequate return to the shareholder, exceed insurance regulatory capital requirements, provide flexibility to take advantage of growth opportunities, maintain a strong credit rating, and to support the risks associated with the business of the Company. The Company monitors the Branch's capital and in the event of a shortfall will fund the Branch.

The Bermuda Monetary Authority ("BMA") is the regulator of the Company. Under the laws and regulations of Bermuda, the Company must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2018, the Company exceeded the minimum requirement.

The Insurance Commission of the Bahamas ("ICB") is the regulator of the Branch. Under the laws and regulations of Bahamas, the Branch must maintain a minimum margin of solvency of \$2 million. The Branch is also required to have a Statutory Fund in place equal to its policyholder liabilities less 75% of ceded reinsurance reserves.

**6. CASH AND CASH EQUIVALENTS**

	2018 \$	2017 \$
Cash at bank and in hand	<u>3,712</u>	<u>3,385</u>

**7. REGULATORY DEPOSITS**

	2018 \$	2017 \$
Regulatory deposits	<u>2,580</u>	<u>2,298</u>

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

**8. FAIR VALUE MEASUREMENT**

**A. Fair value methodologies and assumptions**

The carrying values of cash and cash equivalents and regulatory deposits approximate their fair values.

**B. Fair value hierarchy**

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

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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 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 Branch is the current bid price.

**ii) Level 2**

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

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

**iii) Level 3**

If one or more of the significant inputs is not based on observable market data, the financial assets are included in Level 3. There are no assets measured at fair value using estimates and recorded as level 3.

**C. Assets measured at fair value**

The following table presents the Branch's assets measured at fair value in the statement of financial position, categorised by level under the fair value hierarchy as at 31 December 2018:

<b>Assets</b>	<b>Level 1</b> \$	<b>Level 2</b> \$	<b>Level 3</b> \$	<b>Total</b> \$
Cash and cash equivalents	3,712	-	-	3,712
Regulatory deposits	2,580	-	-	2,580
<b>Total assets</b>	<b>6,292</b>	<b>-</b>	<b>-</b>	<b>6,292</b>

The following table presents the Branch's assets measured at fair value in the statement of financial position, categorised by level under the fair value hierarchy as at 31 December 2017:

<b>Assets</b>	<b>Level 1</b> \$	<b>Level 2</b> \$	<b>Level 3</b> \$	<b>Total</b> \$
Cash and cash equivalents	3,385	-	-	3,385
Regulatory deposits	2,298	-	-	2,298
<b>Total assets</b>	<b>5,683</b>	<b>-</b>	<b>-</b>	<b>5,683</b>

During the current and prior year there were no transfers between Levels.

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**D. Assets and liabilities not measured at fair value**

Policyholder – The fair value of policyholder loans of \$23 (2017: \$15) is reflected as being equal to the carrying value of the loans. These loans are classified as Level 3.

**9. ACCOUNTS RECEIVABLE**

Accounts receivable comprise of agents' commission advanced of \$60 (2017: \$113).

**10. INSURANCE RECEIVABLES**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Premiums receivable	80	63
<b>Total</b>	<b>80</b>	<b>63</b>

**11. PROPERTY AND EQUIPMENT**

	<b>Furniture, equipment and leasehold improvements \$</b>	<b>Computer hardware \$</b>	<b>Total \$</b>
<b>At 1 January 2017</b>			
Cost	141	-	141
Accumulated amortisation	(34)	-	(34)
<b>Net book value</b>	<b>107</b>	<b>-</b>	<b>107</b>
<b>Year ended 31 December 2017</b>			
Amortisation charge	(14)	-	(14)
<b>Closing net book value</b>	<b>93</b>	<b>-</b>	<b>93</b>
<b>At 31 December 2017</b>			
Cost	141	-	141
Accumulated amortisation	(48)	-	(48)
<b>Net book value</b>	<b>93</b>	<b>-</b>	<b>93</b>
<b>Year ended 31 December 2018</b>			
Additions	-	17	17
Amortisation charge	(13)	(1)	(14)
<b>Closing net book value</b>	<b>80</b>	<b>16</b>	<b>96</b>
<b>At 31 December 2018</b>			
Cost	141	17	158
Accumulated amortisation	(61)	(1)	(62)
<b>Net book value</b>	<b>80</b>	<b>16</b>	<b>96</b>

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**12. OTHER LIABILITIES**

These include:	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Accounts payable	1	86
Premium tax payable	12	12
<b>Total</b>	<b>13</b>	<b>98</b>

**13. REINSURANCE LIABILITIES**

Reinsurance liabilities are comprised of the following:

	<b>2017</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Life insurance contracts:		
<b>Participating</b>		
Individual life	50	50
<b>Non-participating</b>		
Individual life	765	723
<b>Total reinsurance liabilities</b>	<b>815</b>	<b>773</b>

**14. INSURANCE CONTRACT LIABILITIES**

**A. Composition of insurance contract liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Gross</b>		
Life insurance contracts:		
<b>Participating</b>		
Individual life	353	397
<b>Non-participating</b>		
Individual life	2,675	2,737
Group life	8	8
Group accident	18	18
<b>Total insurance contract liabilities – gross</b>	<b>3,054</b>	<b>3,160</b>
<b>Net</b>		
Life insurance contracts:		
<b>Participating</b>		
Individual life	403	450
<b>Non-participating</b>		
Individual life	3,440	3,457
Group life	8	8
Group accident	18	18
<b>Total insurance contract liabilities – net</b>	<b>3,869</b>	<b>3,933</b>

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**B. Changes in life insurance contract liabilities**

	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Provision for policy benefits	3,110	773	3,883	2,675	655	3,330
Claims payable	50	-	50	100	-	100
<b>Life insurance contract liabilities - 1 January</b>	<b>3,160</b>	<b>773</b>	<b>3,933</b>	<b>2,775</b>	<b>655</b>	<b>3,430</b>
Change in provision for policy benefits						
Aging and changes in balances	766	(159)	607	196	53	249
Changes in assumptions:						
Investment returns	(1,093)	226	(867)	286	78	364
Mortality	(101)	21	(80)	(62)	(17)	(79)
Lapse	288	(60)	228	-	-	-
Expense	(66)	14	(52)	-	-	-
Other	-	-	-	15	4	19
Other changes	-	-	-	-	-	-
	(206)	42	(164)	435	118	553
Provision for policy benefits	2,904	815	3,719	3,110	773	3,883
Claims payable	150	-	150	50	-	50
<b>Life insurance contract liabilities – 31 December</b>	<b>3,054</b>	<b>815</b>	<b>3,869</b>	<b>3,160</b>	<b>773</b>	<b>3,933</b>

The majority of the fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities by the Company and notionally allocated to the Branch. The Branch's liabilities are notionally matched to the assets of similar duration held by the Company.

**15. INVESTMENT INCOME**

Investment income is comprised of interest earned on the Branch's cash and cash equivalents, regulatory deposit, and policyholder loans. Interest on policyholder loans was negligible for 2018 and 2017.

**16. INSURANCE CONTRACTS BENEFITS AND EXPENSES**

	2018	2017
	\$	\$
Gross life claims and benefits paid	260	318
Change in insurance contract liabilities	(163)	553
<b>Total insurance contracts benefits and expenses</b>	<b>97</b>	<b>871</b>



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**17. OPERATING EXPENSES**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	403	412
Office rent, building and utilities costs	176	170
Professional and consulting fees	51	57
Compliance, legal and regulatory	69	69
Office and administration expenses	21	32
Training and development	5	2
Advertising and business development	-	2
Bank charges and foreign currency purchase tax	7	7
Travel	4	1
Memberships and subscriptions	1	1
Other	12	8
<b>Total operating expenses</b>	<b>749</b>	<b>761</b>

**18. COMMITMENTS AND CONTINGENCIES**

**Operating leases**

The Branch has entered into a commercial lease with renewable options on office space. During the year-end 31 December 2018 \$159 was recognised in the statement of income (2017: \$154). The future minimum lease payments payable under non-cancellable leases are as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
No later than 1 year	56	85
Later than 1 year and no later than 5 years	-	56
Later than 5 years	-	-
<b>TOTAL</b>	<b>56</b>	<b>141</b>

**19. SUBSEQUENT EVENT**

There are no subsequent events to report.