

BF&M LIFE INSURANCE COMPANY LIMITED
(Incorporated in Bermuda)

Consolidated Financial Statements
31 December 2019

BF&M LIFE INSURANCE COMPANY LIMITED

Responsibility for Financial Reporting

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

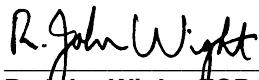
The management of BF&M Life Insurance Company Limited ("the Group") is responsible for the preparation of the consolidated financial statements contained in this report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

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

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

The shareholder's independent auditors, PricewaterhouseCoopers Ltd. have audited the consolidated financial statements of the 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 Audit, Compliance, and Corporate Risk Management Committee to review its findings regarding internal controls over the financial reporting process, auditing matters and reporting issues.

These consolidated financial statements have been authorised for issue by the Board of Directors on March 31, 2020. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.



R. John Wight, FCPA, FCA, CPCU

BF&M Group Chairman and Chief Executive Officer



Abigail Clifford

BF&M Group Chief Operating Officer



Independent auditor's report

To the Board of Directors and Shareholder of BF&M Life 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 Life Insurance Company Limited (the Company) and its subsidiaries (together 'the Group') as at December 31, 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.



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.

Reference: Independent Auditor's Report on the Consolidated Financial Statements of BF&M Life Insurance Company Limited and its subsidiaries as at December 31, 2019 and for the year then ended



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 17, 2020

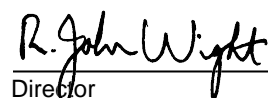
BF&M LIFE INSURANCE COMPANY LIMITED

Consolidated Statement of Financial Position

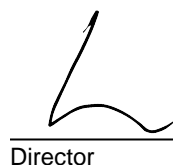
As at 31 December 2019*(in thousands of Bermuda dollars)*

	Notes	2019 \$	2018 \$
Assets			
Cash and cash equivalents	5	54,635	36,571
Investments	7	561,478	520,464
Insurance receivables and other assets	9	19,327	19,238
Amounts due from affiliates	23	2,306	9,283
Regulatory deposits	6	2,641	2,580
Deferred acquisition costs	10	800	944
Property and equipment	11	2,821	351
Intangible assets	12	11,502	13,703
Total general fund assets		655,510	603,134
Segregated funds assets	13	1,028,050	822,613
Total assets		1,683,560	1,425,747
Liabilities			
Other liabilities	14	34,129	21,367
Amounts due to affiliates	23	4,148	3,041
Reinsurance liabilities	15	6,076	4,883
Retirement benefit obligation	16	326	59
Investment contract liabilities	17	299,608	284,049
Insurance contract liabilities	18	210,583	190,940
Total general fund liabilities		554,870	504,339
Segregated funds liabilities	13	1,028,050	822,613
Total liabilities		1,582,920	1,326,952
Equity			
Share capital	19	2,500	2,500
Contributed surplus		9,910	9,872
Accumulated other comprehensive loss	24	(812)	(590)
Retained earnings		89,042	87,013
Total shareholder's equity		100,640	98,795
Total equity		100,640	98,795
Total liabilities and equity		1,683,560	1,425,747

Approved by the Board of Directors



Director



Director

16 April 2020

Date

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

BF&M LIFE INSURANCE COMPANY LIMITED

Consolidated Statement of Income

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

	Notes	2019 \$	2018 \$
Income			
Gross premiums written		123,923	127,081
Reinsurance ceded		(6,684)	(7,438)
Net premiums written		117,239	119,643
Investment (loss) income	7	42,426	(3,352)
Commission and other income	20	9,991	10,023
Total income		169,656	126,314
Benefits and Expenses			
Insurance contracts benefits and expenses	21	118,952	85,413
Investment contract (benefits) expenses		9,170	(3,634)
Participating policyholders' net profit		388	188
Commission expense		2,549	2,431
Operating expenses	22	24,833	24,191
Amortisation expense		3,589	2,863
Interest expense		146	-
Total benefits and expenses		159,627	111,452
Net income for the year		10,029	14,862

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

(in thousands of Bermuda dollars)

	2019	2018
	\$	\$
Net income for the year	10,029	14,862
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	(222)	1,631
Total other comprehensive income for the year	(222)	1,631
Comprehensive income	9,807	16,493

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

BF&M LIFE INSURANCE COMPANY LIMITED
Consolidated Statement of Changes in Shareholder's Equity
For the year ended 31 December 2019

(in thousands of Bermuda dollars)

	2019	2018
	\$	\$
Share capital		
Balance – beginning and end of year	2,500	2,500
Contributed surplus		
Balance – beginning of year	9,872	9,760
Stock issued under equity incentive plan	38	112
Balance – end of year	9,910	9,872
Accumulated other comprehensive loss		
Balance – beginning of year	(590)	(2,221)
Other comprehensive income for the year	(222)	1,631
Balance – end of year	(812)	(590)
Retained earnings		
Balance – beginning of year	87,013	79,207
Adjustment for change in accounting policy	-	944
Balance – beginning of year, after change in accounting policy	87,013	80,151
Net income for the year	10,029	14,862
Dividends paid	(8,000)	(8,000)
Balance – end of year	89,042	87,013
Total shareholder's equity	100,640	98,795

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

BF&M LIFE INSURANCE COMPANY LIMITED**Consolidated Statement of Cash Flows****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

	2019	2018
	\$	\$
Cash flows from operating activities		
Net income for the year	10,029	14,862
Adjustments for:		
Investment income	(18,463)	(16,113)
Net realised gain/(loss) on investments	(1,019)	2,356
Change in fair value of investments	(30,967)	12,250
Amortisation of fixed income securities	181	415
Impairment of investments	4,973	2,247
Amortisation of property and equipment	800	100
Amortisation of intangible assets	2,783	2,763
Interest expense	146	-
Impairment on intangible assets	6	-
Compensation expense related to share grants	38	112
Adjustment for change in accounting policy	(3,235)	944
Changes in assets and liabilities		
Insurance receivables and other assets	176	1,096
Amounts due to/from affiliates	8,084	(1,007)
Insurance contract liabilities	19,643	(6,190)
Investment contract liabilities	15,559	2,680
Other liabilities	10,136	(2,260)
Deferred acquisition costs	145	(944)
Reinsurance liabilities	1,193	(379)
Retirement benefit obligations	45	(250)
Regulatory deposits	(61)	(282)
Cash generated from operations	20,192	12,400
Interest paid	(146)	-
Interest received	17,877	15,009
Dividends received	320	285
Net cash generated from operating activities	38,243	27,693
Cash flows from investing activities		
Purchase of investments	(138,764)	(244,708)
Proceeds from sales of investments	124,583	225,157
Acquisition of property and equipment	(36)	(109)
Acquisition of intangible assets	(588)	(1,147)
Net cash used for investing activities	(14,805)	(20,807)
Cash flows from financing activities		
Cash dividends paid	(8,000)	(8,000)
Principal elements of lease payments	2,626	-
Net cash used for financing activities	(5,374)	(8,000)
Increase (decrease) in cash and cash equivalents	18,064	(1,114)
Cash and cash equivalents – beginning of year	36,571	37,685
Cash and cash equivalents – end of year	54,635	36,571

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

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

1. NATURE OF THE COMPANY AND ITS BUSINESS

BF&M Life Insurance Company Limited (the “Group” or the “Company”) is a wholly-owned subsidiary of BF&M Limited (“BF&M” or “the Parent”). The Company was incorporated in Bermuda on 13 November 1990 and is registered as a Dual – Class D and Class 3B insurer under The Bermuda Insurance Act 1978, amendments thereto and related regulations (“the Act”) and writes group and individual life, accident and health, pension and annuity business. The address of its registered office is 112 Pitts Bay Road, Pembroke, HM08, Bermuda.

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

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

On 31 March 2020 the Board of Directors approved the consolidated financial statements and authorised them for issue. The Board of Directors has the power to amend the consolidated financial statements after issue.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued and adopted by the International Accounting Standards Board (“IASB”).

B. Basis of preparation

i) Basis of measurement

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of: available-for-sale financial instruments and certain segregated fund assets & liabilities measured at fair value; retirement benefit obligations measured at present value; and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

ii) Critical estimates, judgments and assumptions

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

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these consolidated financial statements including:

- The actuarial assumptions used in the valuation of life and health insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions and sensitivities are discussed in Note 4B.
- In the determination of the fair value of financial instruments, the Group's management exercises judgement in the determination of fair value inputs, particularly those items categorised within level 3 of the fair value hierarchy. Refer to Note 8.
- 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 16.
- Management uses independent qualified appraisal services to assist in determining the fair value of available for sale properties or properties providing collateral for mortgages, for purposes of evaluating possible impairment. This fair value assessment requires judgments and estimates on future cash flows and general market conditions. Refer to Notes 8 and 4A.
- Management considers the synergies and future economic benefits to be realised in the initial recognition and measurement of intangibles assets as well as testing of recoverable amounts. The assessment of the carrying value of intangible assets relies upon the use of forecasts and future results. Refer to Note 2L and Note 12.

C. Consolidation

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

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

D. Determination of fair value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. When available, quoted market prices are used to determine fair value. If quoted market prices are not available, fair value is typically based on alternative valuation techniques such as discounted cash flows and other techniques. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and inputs. For bonds and fixed income securities, broker quotes are typically used when external public vendor prices are not available. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors. A description of the fair value methodologies and assumptions by type of asset is included in Note 8.

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

E. Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

iii) Group companies

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

The Cayman Island operation's functional currency is in United States dollars, which are on par with Bermuda dollars. As a result there are no unrealised translation gains and losses to be reported.

F. Cash and cash equivalents

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

G. Regulatory deposit

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

H. Financial instruments

i) Financial assets

Classification, recognition and subsequent measurements of financial assets

The Group classifies its investments into the following categories: (a) financial assets at fair value through profit and loss ("FVTPL"), (b) loans and receivables, and (c) financial assets available for sale. Management determines the classification at initial recognition and is dependent on the nature of the assets and the purpose for which the assets were acquired.

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

a. FVTPL

A financial asset is classified at FVTPL if it is designated as such upon initial recognition or is classified as held-for-trading. A financial asset can be designated as FVTPL if it eliminates or significantly reduces an accounting mismatch. A financial asset is classified as held-for-trading if it is acquired mainly for the purpose of selling in the near term or traded for the purposes of earning investment income. Attributable transaction costs upon initial recognition are recognised in investment income on the consolidated statement of income as incurred. FVTPL assets are measured at fair value and changes in fair value as well as realised gains and losses on sales are recognised in investment income on the consolidated statement of income. Dividends earned on equities are recorded in investment income on the consolidated statement of income. Derivatives are also categorised as held-for-trading unless they are designated as hedges. The Group has not designated any derivatives as hedges.

b. Loans and receivables

Loans and receivables are all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment loss. For purposes of this classification loans and receivables are comprised of mortgages and other loans. Realised gains or losses from the sale of loans and receivables are recorded in investment income in the consolidated statement of income.

c. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, including properties pending sale associated with non-performing mortgages that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction cost. Equities are subsequently carried at fair value. Residential properties available-for-sale are subsequently carried at the lower of carrying value and the estimated fair value less costs to sell and other available for sale financial assets are carried at fair value. Gains and losses arising from changes in the fair value of the financial assets available for sale are included in the consolidated statement of comprehensive income in the period in which they arise. When assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of income.

All other financial assets (including fixed income securities classified as loans and receivables) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Balances pending settlement as a result of sales and purchases are reflected on the consolidated statement of financial position as receivable for investments sold and payable for investments purchased.

De-recognition and offsetting

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

Investment income

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

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

ii) Financial liabilities

Classification, recognition and subsequent measurement of financial liabilities

The Group has the following financial liabilities: (a) financial liabilities at FVTPL and (b) other financial liabilities. Management determines the classification at initial recognition.

a. FVTPL

The Group's financial liabilities at FVTPL relate to certain investment contract liabilities. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. Changes in fair value of investment contract liabilities are recorded in investment contract benefits on the consolidated statement of income.

b. Other financial liabilities

All remaining financial liabilities are classified as other financial liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Included under other liabilities are accounts payable and lease liabilities. Other liabilities (except lease liabilities, refer to Note 2K) are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

Other liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

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 financial asset.

a. Loans and receivables

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

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

b. Financial assets classified as available for sale

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

When an available-for-sale asset is impaired, the loss accumulated in other comprehensive income is reclassified to investment income on the consolidated statement of income. The cumulative loss that is reclassified from other comprehensive income to investment income is measured as the difference between the acquisition cost and the current fair value of the financial assets less any impairment loss previously recognised in the consolidated statement of income. If, in a subsequent period, the fair value of a financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the consolidated statement of income.

ii) Impairment of non-financial assets

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

J. Property and equipment

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

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

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

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

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

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

K. Leases

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

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

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

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

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

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

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

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To determine the incremental borrowing rate, the group:

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

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

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

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

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

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

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

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.

L. Intangible assets

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

i) Finite life intangible assets

Intangible assets have been determined to have finite lives and are amortised on a straight-line basis over varying periods of up to 10 years, being the estimated expected lives. The estimated life is re-evaluated when there is objective evidence of impairment (refer to Note 21(ii)). For assets that are not yet in use the impairment is assessed on an annual basis. Finite life intangible assets include the following:

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a. Customer lists

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

b. Software development costs

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

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

Directly attributable costs that are capitalised as part of the software development include employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are expensed when incurred. Capitalised software development costs for projects in use are amortised on a straight-line basis over their useful lives, which range from 5 to 10 years.

M. Insurance and investment contracts

The Group issues contracts that transfer insurance risk or financial risk or both.

i) Insurance contracts

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party, the policyholder or ceding company, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Group considers the proportion of premiums received to the benefit payable if the insured event did occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Life and health insurance contracts include term, whole life and universal life insurance contracts, group life insurance policies, health insurance contracts and life contingent annuities. The Group holds whole life contracts which may be either participating or non-participating contracts.

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

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a. Reinsurance contracts held related to insurance contracts

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

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

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

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its estimated recoverable amount and recognises that impairment loss in the consolidated statement of income.

b. Insurance contract liabilities

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

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

In certain life and health reinsurance contracts underwritten by the Group, where the timeliness and quality of information from cedants is not sufficient to provide a reasonable estimate of true premium written, then those premiums are recorded as cash is received from the cedants. An insurance contract liability is calculated and any loss on an underwriting year is recorded in the consolidated statement of income. If any profit is anticipated on an underwriting year then further reserves are established to record to nil underwriting income. This takes place for the first 3 years of each underwriting year programme as this time period is felt to be the minimum time necessary to determine underwriting results.

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

ii) Investment contracts

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

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

Investment contracts with DPF's are accounted for in accordance with IFRS 4 and investment contracts without DPF's are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

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

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

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

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance and investment contract holders. These receivables and payables are included in insurance receivables and other assets, insurance and investment contract liabilities and other liabilities in the consolidated statement of financial position.

If there is objective evidence that the receivable is impaired, the Group reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the consolidated statement of income. The Group gathers the objective evidence that a receivable is impaired using the same process adopted for loans and receivables in Note 21(i)a above. The impairment loss is calculated using the same method used for these financial assets.

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N. Service Contracts

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

O. Segregated fund's assets and liabilities

Segregated funds assets and liabilities relates to contracts issued by the Group where the benefit amount to the policyholder is directly linked to the fair value of the investment held in the particular segregated fund. The underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets. The contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. There is also no insurance risk to the Group with these contracts. Segregated funds net assets are recorded at fair value. The fair value of the segregated funds net liabilities is equal to the segregated funds net assets. Investment income earned by the segregated funds and expenses incurred by the segregated funds offset and are not separately presented in the consolidated statement of income and are disclosed in Note 13. Fee income earned on the management of these contracts is included in commission and other income in the consolidated statement of income.

P. Loans to policyholders

Loans to policyholders are initially measured at fair value and subsequently carried at amortised cost and are fully secured by the policy values on which the loans are made. These loans are classified as loans and are included in investments within the consolidated statement of financial position.

Q. Employee benefits

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

i) Pension obligations

A defined contribution plan is a pension plan under which the Parent 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.

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Re-measurement of the net defined benefit asset or liability consists of actuarial gains and losses, the change in effect from asset limits and the return on plan assets, excluding amounts included in net interest on the net defined benefit asset or liability, and are charged or credited to other comprehensive income in the period in which they arise. Current service costs, past services cost, any gains or losses from curtailments and interest on the net defined benefit liability (asset) are recognised immediately in the consolidated statement of income.

ii) Other post-employment obligations

In addition to pension benefits, the Parent provided post-retirement benefits for health care to qualified employees of the group who retired prior to 1 January 2012. The entitlement to these benefits was usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits were accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

These costs are recognised on an accrual basis during the years when service was provided to the Group. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

iii) Share-based compensation

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

If BF&M grants share options to employees that vest in the future if service conditions are met, then the fair value of the options will be calculated at the date the options are granted. This fair value will be charged to the consolidated statement of income equally over the vesting period with adjustments made at each accounting date to reflect the best estimate of the number of options that will eventually vest. Where shares grants are forfeited due to failure by the employee to satisfy the service conditions, any expense previously recognized in relation to such shares are reversed effective the date of forfeiture. Expenses previously recognized related to share options are not reversed on forfeit.

The grant by BF&M of its equity instruments to employees of its subsidiary undertakings is treated as a capital contribution by both BF&M and the subsidiaries. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in additional paid in capital with a corresponding charge to operating expenses.

iv) Employee share purchase plan

BF&M operates an employee share purchase plan that allows its employees and those of its subsidiary undertakings to purchase BF&M's common shares at below-market rates, subject to certain restrictions. Shares are offered at a discount to the shares' fair market value, as determined by the market share price on the date of purchase. Employees may purchase shares up to a maximum percentage of their gross salary. Consistent with the accounting treatment of the share-based compensation, the discount is accounted for as a contribution to capital in the subsidiaries with a corresponding charge to operating expense in the period in which the shares are purchased.

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R. Revenue recognition

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

i) Premium income

Premiums on most life and health insurance contracts and life contingent annuity investment contracts are recognised as revenue when due from the policyholder.

Premiums on life and health reinsurance contracts underwritten by the Group are recognised based on receipts reported by the ceding company. This occurs when the timeliness and quality of information reported by the ceding company is not sufficient to otherwise record the revenue when due.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not recorded as revenue in the consolidated statement of income. Only those contributions used to cover insured risk and associated costs are treated as premium income. These include fees for the cost of insurance and administrative charges.

ii) Commission income

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

iii) Service contracts

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

S. Share capital

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

T. 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 International Financial Reporting Standards adopted in 2019

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

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***i) IFRS 16 – Leases (“IFRS 16”)**

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

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

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

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

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

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

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

	2019
	\$
Measurement of lease liabilities	
Operating lease commitments disclosed as at 31 December 2018	689
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,362)
Add: contracts reassessed as lease contracts	6,081
Less: short-term leases not recognised as a liability	(56)
Lease liability recognised as at 1 January 2019	5,352

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Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liability recognised in the consolidated statement of financial position as at 31 December 2018.

Adjustments recognised in the balance sheet on 1 January 2019

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

- property and equipment – increase by \$5,352
- other liabilities – increase by \$5,352

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

i) Amendments to Other

The Group adopted amendments to IFRS for IAS 19 – *Employee Benefits and Annual Improvements 2015 – 2017 Cycle* for the amendments to IFRS 3 – *Business Combinations*, and IAS 23 – *Borrowing Costs*, effective January 1, 2019. The adoption of these standards and amendments did not have a significant impact on the Groups' consolidated financial statement.

B. New and revised International Financial Reporting Standards to be adopted in 2020

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

i) The Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework

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

ii) IFRS 3 – Business Combinations (“IFRS 3”)

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

iii) IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

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

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C. New and revised International Financial Reporting Standards to be adopted in 2021 or later

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

i) IFRS 9 - Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of this standard that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

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

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

IFRS 9 brings together all three aspects of the accounting for financial instruments project undertaken by the IASB: classification and measurement, impairment and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

ii) IFRS 17 – Insurance Contracts ("IFRS 17")

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

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

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.

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A significant part of the Group's business involves the acceptance and management of risk. The Group is exposed to insurance, market, credit, liquidity and operational risks and operates a formal risk management framework to ensure that all significant risks are identified and managed.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board of Directors. The Group has established a risk management function with terms of reference from the Board of Directors, its committees and the associated executive management committees. This is supplemented with an organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers. The key control techniques for the major categories of risk exposure are summarised in the following sections.

Risks are usually grouped by risk type: (i) financial, including credit, liquidity and market; and (ii) insurance, including life and health insurance and short term insurance risk. Risks falling within these types may affect a number of key metrics including those relating to the balance sheet strength, liquidity and profit. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

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

A. Financial risks

i) Credit risk

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

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

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For the year ended 31 December 2019*(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.

	2019	2018
	\$	\$
Cash and cash equivalents	54,635	36,571
Fixed and regulatory deposits	2,641	2,580
Fixed income securities	500,156	455,550
Mortgages and loans	42,899	48,664
Insurance receivables and other assets	19,327	19,238
Amounts due from affiliates	2,306	9,283
Total	621,964	571,886

Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries.

The following table provides details of the carrying value of fixed income securities by industry sector and geographic distribution:

	2019	2018
	\$	\$
Fixed income securities issued or guaranteed by:		
Financials	95,608	95,215
Government	36,740	28,364
U.S. Treasury and other agencies	53,620	48,824
Utilities and energy	86,411	86,021
Consumer staples and discretionary	81,173	74,803
Telecom	18,272	21,240
Computer technology products and services	16,106	15,232
Industrials and materials	41,051	35,566
Other	71,175	50,285
Total fixed income securities	500,156	455,550
United States	449,976	387,411
Canada	10,098	26,585
Northern Europe	14,363	18,725
Asia-Pacific	2,515	8,106
United Kingdom	12,374	12,520
Caribbean	7,667	1,582
Other	3,163	621
Total fixed income securities	500,156	455,550

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

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

	2019	2018
	\$	\$
Bermuda	42,899	48,664
Total mortgages and loans	42,899	48,664

Credit quality of financial assets

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

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

As at 31 December 2019

	AAA	AA	A	BBB	Not rated	Total
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	3,284	-	40,574	10,777	-	54,635
Regulatory deposits	-	-	2,641	-	-	2,641
Fixed income securities	66,007	136,053	236,676	61,420	-	500,156
Total	69,291	136,053	279,891	72,197	-	557,432

As at 31 December 2018

	AAA	AA	A	BBB	Not rated	Total
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	4,344	-	13,647	18,580	-	36,571
Regulatory deposits	-	-	2,580	-	-	2,580
Fixed income securities	61,308	127,615	206,598	60,029	-	455,550
Total	65,652	127,615	222,825	78,609	-	494,700

Past due or credit impaired mortgages and loans

Mortgages comprise first mortgages on real property situated in Bermuda. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975. Other loans are secured by a collateral assignment of life insurance policy proceeds and irrevocable beneficiary designation.

Mortgages and loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due. Management exercises judgment in assessing a borrower's ability to meet current and future contractual interest and principal payments including assessing the current financial position of the borrower and the value of the collateral.

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The following table provides carrying amounts of the mortgages and loans that are considered past due or impaired:

	2019	2018
	\$	\$
Not past due	31,542	34,926
Past due less than 90 days	4,240	4,660
Past due 90 to 180 days	651	1,115
Past due 180 days or more	838	-
Impaired (net of impairment provisions)	5,628	7,963
Total mortgages and loans	42,899	48,664

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

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

Significant judgment is applied by management in the determination of impairment including the timing and amount of future collections, costs expected to be incurred to collect or dispose of the collateral, and sale proceeds on any required disposal of collateral.

The reconciliation of the impairment and provision on mortgage and loans is as follows:

	2019	2018
	\$	\$
At 1 January	7,558	5,799
Transfer to available for sale residential properties	-	(179)
Sale of foreclosed mortgage loans	-	-
Increase in impairment and provision allowance	4,962	1,938
Total at 31 December	12,520	7,558

A significant estimate in the determination of impairment is the timing of future collections which is based on the expected timing of liquidating the underlying collateral. Market value fluctuations will impact the value of the collateral and can significantly impact the estimate of impairment. Management estimates that collection will occur within 12 months. An additional impairment of between \$48 (2018: \$616) and \$95 (2018: \$996) could be incurred if collection occurred within 18-24 months. A 10% drop in the collateral value supporting the mortgages on our credit watch list plus all foreclosed properties, would result in a further impairment charge of \$577 (2018: \$1,242).

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For the year ended 31 December 2019*(in thousands of Bermuda dollars)***ii) Liquidity risk**

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

- Management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations;
- Short-term cash flow needs are adequately met by operating cash flows and proceeds from mortgage and loan repayments;
- The Group closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities, and pensions business. Investments in various types of assets occur with a view to matching them to the liabilities of various durations;
- Investments are graded internally on a liquidity level (1 to 4) and the Group looks to maintain adequate levels in highly liquid (1 and 2) securities;
- The Group maintains appropriate dividend and capital policies to ensure movement of cash flow as needed;
- Arrangements with reinsurers are made to ensure that recoverables are received in a timely fashion in the event of a liquidity crisis.

The maturity profile of financial assets at 31 December 2019 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	54,839	140,718	103,574	201,025	500,156	0.06%-7.13%
Mortgages	6,764	4,995	4,472	22,888	39,119	5.00%-9.00%
Policyholder loans	189	378	378	2,835	3,780	4.75%-8.25%
Insurance receivables and other assets	19,327	-	-	-	19,327	
Regulatory assets	2,641	-	-	-	2,641	
Total	83,760	146,091	108,424	226,748	565,023	
Percent of total	14.82%	25.86%	19.19%	40.13%	100.00%	

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

	Within 1 year	2 to 3 years	4 to 5 years	Over 5 years	Total	Effective interest rate ranges
	\$	\$	\$	\$	\$	
Fixed income securities	55,590	118,127	126,313	155,520	455,550	0.08%-7.13%
Mortgages	11,704	3,994	5,047	24,380	45,125	5.25%-9.00%
Policyholder loans	177	354	354	2,654	3,539	4.75%-8.25%
Insurance receivables and other assets	19,238	-	-	-	19,238	
Total	86,709	122,475	131,714	182,554	523,452	
Percent of total	16.56%	23.40%	25.16%	34.88%	100.00%	

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

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

The maturity profile of liabilities at 31 December 2019 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Other liabilities	31,814	898	1,417	34,129
Amounts due to affiliates	4,148	-	-	4,148
Investment contract liabilities	70,787	228,101	720	299,608
Insurance contract liabilities – net of reinsurance	22,730	639	193,290	216,659
Total	129,479	229,638	195,427	554,544

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

	Within 1 year	1-5 years	Over 5 years	Total
	\$	\$	\$	\$
Other liabilities	21,367	-	-	21,367
Amounts due to affiliates	3,041	-	-	3,041
Investment contract liabilities	60,484	223,053	512	284,049
Insurance contract liabilities – net of reinsurance	23,708	584	171,531	195,823
Total	108,600	223,637	172,043	504,280

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk).

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has operations in several jurisdictions and revenue and expenses are denominated in several local currencies. The Group is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Group's assets, liabilities, and earnings are denominated in Bermuda, Bahamian, Cayman, or United States dollars;
- The Bermuda, Bahamian, and Cayman dollars are pegged to the United States dollar; and
- The Bermuda dollar is at par with the United States dollar.

The Group regularly monitors currency translation fluctuations. Generally, the Group looks to match the currency of its local assets to the currency of the local liabilities they support or to the United States dollar as the currency of the liabilities is generally pegged to the United States dollar. This achieves the objective of

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mitigating risk of loss arising from movements in currency. Policies written in currencies that are not pegged to the United States dollar are not material and the Group considers the currency risk minimal.

Interest rate risk

Interest rate risk is price volatility produced by changes in the overall level of interest rates. Change in market interest rates can impact the reinvestment of matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. The Group manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Utilisation of a formal process for managing the matching of assets and liabilities;
- Investing in assets that are suitable for the products sold;
- Investing in fixed income assets that closely match the life liability product cash flows for products with fixed and highly predictable benefit payments; and
- Quantifying and reviewing regularly the risk associated with the mismatch in portfolio duration and cash flow.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

Investment contracts with fixed and guaranteed terms held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

In relation to financial assets, management monitors the sensitivity of reported interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 100 basis points in all yield curves.

The impact of interest rate risk for the Group's actuarial liabilities and the assets supporting those liabilities is included in Note 4B - Insurance Risk below. The Group also holds fixed income investments which support non-cash flow matched liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been \$1,384 (2019 - \$1,096) higher and \$1,284 (2019 - \$1,095) lower. The interest rate sensitivity impact was calculated using the effective duration method.

Price risk

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

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

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

A 10% increase/decrease in the value of the Group's equity and funds portfolio would increase/decrease the Group's comprehensive income by \$1,775 (2018 - \$1,472). The price risk sensitivity impact was calculated by using the ending balances in equity and funds at a 10% increase/decrease.

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B. Insurance risk

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

Management of life and health insurance risks

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

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

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

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

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group selects reinsurers, from those approved by the Group, based on local factors, but assesses the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within the Group's appetite for credit risk. In the case of default by a reinsurer, this does not release the Group from its liability to the insured policyholders.
- Longevity risk: The Group monitors the exposure to this risk and the capital implications to manage the impact on the Group-wide exposure and the capital funding that the Group may require as a consequence.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. The Group also implements specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss for, and reputational damage to, the Group. Guidelines have been developed to support the Group through the complete cycle of the product development process, financial analysis and pricing.

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

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***Concentration risk**

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

	2019			2018		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Bermuda	202,052	5,372	207,424	184,813	4,068	188,881
Bahamas	4,703	704	5,407	3,054	815	3,869
Other Caribbean & Latin America	3,828	-	3,828	3,073	-	3,073
Total	210,583	6,076	216,659	190,940	4,883	195,823

Assumptions and methodologies

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

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

a) Mortality

Mortality refers to the rates at which death is expected to occur for defined classes of insureds. Management reviews the Group's mortality experience annually, however, the Group's portfolio of business is too small to form the basis for any internally produced mortality assumption. The Group's mortality assumption is based on industry experience. The assumed mortality rates for life insurance contracts do not reflect any future improvement. For life contingent annuities, the assumed mortality assumption includes future mortality improvement, the effect of which is to increase insurance contract liabilities, based on prescribed mortality improvement rates promulgated by the ASB.

For life products, a higher mortality would be financially adverse to the Group. For annuity products, a lower mortality would be financially adverse to the Group.

b) Morbidity

Morbidity refers to the likelihood that an insured will contract or develop any number of illnesses. The Group's portfolio of group and individual health business is large enough for an internal analysis of lag and is used, along with the analysis of experience, as the basis for setting annually renewable premiums. A very small block of individual disability business assumes industry standard morbidity rates when setting assumptions.

Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. An increase in medical claim rates net of reinsurance would increase the actuarial liabilities.

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c) Investment Returns

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

d) Expenses

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

e) Lapse

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

Policyholders may allow their policies to terminate prior to the end of the contractual period by choosing not to continue to pay premiums or by exercising one of the non-forfeiture options contained in the contract. Assumptions for termination experience on life insurance are based on industry and the Group’s experience. Termination rates vary by plan, policy duration and method of premium payment. For universal life policies, it is also necessary to set assumptions about premium cessation occurring prior to termination of the policy.

f) Premium payment patterns

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

g) Policyholder dividends

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

Sensitivity test analysis

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

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

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

	Change in assumption	Increase in liability	
		2019 \$	2018 \$
Mortality rate - life products	+3%	373	339
Mortality rate - annuity products	-3%	1,036	981
Morbidity - medical claims	+3%	2,466	2,499
Expenses	+10%	1,818	1,639
Termination rates	+10%	1,266	1,204

Investment returns

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

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

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash outflows by approximately \$3,239 (2018 - \$1,234). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash outflows by approximately \$3,239 (2018 - \$1,234).

C. Capital management and regulatory compliance

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

The Bermuda Monetary Authority ("BMA") is the regulator of the Company. Under the laws and regulations of Bermuda, the Company must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2019, the Company exceeded the minimum requirement.

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

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

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

The Act also requires the Company to meet minimum liquidity ratios whereby defined relevant assets of its Class 3B operations must exceed 75% of defined relevant liabilities.

The Act limits the maximum amount of annual dividends and distributions that may be paid by the Group. The Company is prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus, as shown in the previous year statutory balance sheet, unless at least seven days before payment of the dividend the Company files with the BMA an affidavit that it will continue to meet its minimum capital requirement as described above. In addition, the Company must obtain the BMA's prior approval before reducing its total statutory capital, as shown in the previous financial year statutory balance, by 15% or more.

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

5. CASH AND CASH EQUIVALENTS

	2019 \$	2018 \$
Cash at bank and in hand	51,351	32,227
Short-term bank deposits	3,284	4,344
Total	54,635	36,571

6. REGULATORY DEPOSITS

	2019 \$	2018 \$
Total regulatory deposits	2,641	2,580

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

7. INVESTMENTS**A. Carrying amount and fair value of investments**

Investments comprise:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
At fair value through profit and loss				
- Fixed income securities	500,156	500,156	455,550	455,550
- Equities	17,747	17,749	14,719	14,718
Loans and receivables				
- Mortgages	39,119	39,068	45,125	45,187
- Policyholder loans	3,780	3,780	3,539	3,539
	560,802	560,753	518,933	518,994
Available for sale				
- Residential properties	676	676	1,531	1,531
Total	561,478	561,429	520,464	520,525

As at 31 December 2019, the fair value of the assets that pass the Solely Payment of Principal and Interest ("SPPI") test but are neither managed or have their performance evaluated on a fair value basis are as follows:

	Fair value	SPPI	Non-SPPI
	\$	\$	\$
Loans and receivables			
- Mortgages	39,068	39,068	-
- Policyholder loans	3,780	3,780	-
Total	42,848	42,848	-

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For the year ended 31 December 2019*(in thousands of Bermuda dollars)***B. Investment income (loss)**

	2019	2018
	\$	\$
Interest income		
Fixed income securities – at FVTPL	14,010	11,753
Mortgages and loans	3,309	3,266
Bank deposits and policyholder loans	643	362
Due from affiliate loans	-	32
	<u>17,962</u>	<u>15,413</u>
Dividend income		
Equities – at FVTPL	320	285
	<u>320</u>	<u>285</u>
Net realised gains (losses) on sale of investments		
Residential properties	(80)	343
Equities – at FVTPL	121	53
Fixed income securities – at FVTPL	978	(2,752)
	<u>1,019</u>	<u>(2,356)</u>
Change in fair value arising from		
Fixed income securities	28,391	(11,701)
Equities	2,576	(549)
	<u>30,967</u>	<u>(12,250)</u>
Impairments and deductions		
Less: Impairment provision on mortgages and loans	(4,962)	(1,938)
Less: Impairment loss on residential properties	(10)	(309)
Less: Crediting interest on guaranteed contracts for the account of customers	(2,869)	(2,197)
	<u>(7,841)</u>	<u>(4,444)</u>
Total investment income (loss)	<u>42,426</u>	<u>(3,352)</u>

8. FAIR VALUE MEASUREMENT**A. Fair value methodologies and assumptions**

Management has assessed that the carrying values of cash and cash equivalents, and regulatory deposits 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.

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

Fair values for residential and commercial properties held for sale are assessed annually and reviewed quarterly for material changes. The fair value is assessed using the most recently available reports from qualified external appraisal services. These properties are appraised externally each year. Values are estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental values, assessed rental values or market rental values at a market discount rate; or 2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used. The methodologies and inputs used in these models are in accordance with real estate industry valuation standards. Valuation inputs include estimated rental value, rental growth rates, vacancy rates, discount rates, future operating expenses and terminal growth rates.

The fair value of investments for accounts of segregated fund holders is determined using quoted prices in active markets or independent valuation information provided by investment managers. The fair value of direct investments within investments for accounts of segregated fund holders, such as short-term securities and government and corporate debt securities, is determined according to valuation methodologies and inputs described above in the respective asset type sections.

The methodologies and assumptions for determining the fair values of investment contract liabilities are included in Note 2M(ii).

B. Fair value hierarchy

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

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

i) Level 1

Fair value is based on quoted market prices for identical assets and liabilities in an active market at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***ii) Level 2**

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

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

iii) Level 3

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

C. Assets and liabilities measured at fair value

The following table presents the Group's assets and liabilities measured at fair value in the consolidated statement of financial position, categorised by level under the fair value hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	54,635	-	-	54,635
Regulatory deposits	2,641	-	-	2,641
Financial assets at FVTPL				
Fixed income securities	51,228	448,928	-	500,156
Equities	15,723	2,026	-	17,749
Available for sale financial assets				
Residential properties	-	-	676	676
Segregated fund assets	888,692	139,358	-	1,028,050
Total assets measured at fair value	1,012,919	590,312	676	1,603,907
Liabilities				
Investment contract liabilities	-	299,608	-	299,608
Segregated fund liabilities	-	1,028,050	-	1,028,050
Total Liabilities measured at fair value	-	1,327,658	-	1,327,658

BF&M LIFE INSURANCE COMPANY LIMITED

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For the year ended 31 December 2019

(in thousands of Bermuda dollars)

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	36,571	-	-	36,571
Regulatory deposits	2,580	-	-	2,580
Financial assets at FVTPL				
Fixed income securities	48,824	406,726	-	455,550
Equities	13,515	1,203	-	14,718
Available for sale financial assets				
Residential properties	-	-	1,531	1,531
Segregated fund assets	680,929	141,684	-	822,613
Total assets measured at fair value	782,419	549,613	1,531	1,333,563
Liabilities				
Investment contract liabilities	-	284,049	-	284,049
Segregated fund liabilities	-	822,613	-	822,613
Total Liabilities measured at fair value	-	1,106,662	-	1,106,662

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

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

Residential properties are assets carried at fair value on a recurring basis that are categorised as level 3. Transfers into level 3 represent previous mortgages and loans not measured at fair value. Significant unobservable inputs include sale proceeds, costs to sell and timing of sale. A decrease in expected sale proceeds would result in a decrease in fair value. A decrease in either costs to sell or time to sale would result in an increase in fair value.

D. Assets and liabilities not measured at fair value

For assets and liabilities not measured at fair value in the consolidated statement of financial position, the following table discloses fair value information categorised by level in the preceding hierarchy as at 31 December 2019:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Loans and receivable financial assets				
Mortgages	-	-	39,068	39,068
Policyholder loans	-	-	3,780	3,780
Total assets not measured at fair value	-	-	42,848	42,848

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

For assets and liabilities not measured at fair value in the consolidated statement of financial position, the following table discloses fair value information categorised by level in the preceding hierarchy as at 31 December 2018:

Assets	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Loans and receivable financial assets				
Mortgages	-	-	45,187	45,187
Policyholder loans	-	-	3,539	3,539
Total assets not measured at fair value	-	-	48,726	48,726

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

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

9. INSURANCE RECEIVABLES AND OTHER ASSETS

	2019	2018
	\$	\$
Insurance receivables	11,986	12,321
Accounts receivable	3,516	3,176
Investment income due and accrued	3,825	3,741
Total	19,327	19,238

10. DEFERRED ACQUISITION COSTS

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

	2019	2018
	\$	\$
At 1 January	944	-
Adjustment for change in accounting policy	-	944
Recognised deferred acquisition costs	102	82
Amortisation charge through income	(246)	(82)
At 31 December	800	944

BF&M LIFE INSURANCE COMPANY LIMITED
Notes to Consolidated Financial Statements
For the year ended 31 December 2019
(in thousands of Bermuda dollars)
11. PROPERTY AND EQUIPMENT
A. Property and equipment comprises:

	Land and Buildings \$	Furniture, equipment and leasehold improvements \$	Computer hardware \$	Motor vehicles \$	Total \$
At 1 January 2018					
Cost	-	355	574	12	941
Accumulated amortisation	-	(137)	(461)	(2)	(600)
Net book value	-	218	113	10	341
Year ended 31 December 2018					
Additions	-	3	107	-	110
Disposals	-	(47)	(133)	(1)	(181)
Disposals – accumulated amortisation	-	47	133	1	181
Amortisation charge	-	(33)	(64)	(3)	(100)
Closing net book value	-	188	156	7	351
At 31 December 2018					
Cost	-	311	548	11	870
Accumulated amortisation	-	(123)	(392)	(4)	(519)
Net book value	-	188	156	7	351
Adjustment for change in accounting policy	5,352	-	-	-	5,352
Opening net book value after adjustment for change in accounting policy.	5,352	188	156	7	5,703
Year ended 31 December 2019					
Additions	-	-	35	-	35
Revised terms on right-of-use assets	(2,117)	-	-	-	(2,117)
Disposals	-	-	(197)	-	(197)
Disposals – accumulated amortisation	-	-	197	-	197
Amortisation charge	(671)	(31)	(96)	(2)	(800)
Closing net book value	2,564	157	95	5	2,821
At 31 December 2019					
Cost	3,235	311	386	11	3,943
Accumulated amortisation	(671)	(154)	(291)	(6)	(1,122)
Net book value	2,564	157	95	5	2,821

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019*(in thousands of Bermuda dollars)***B. Leases:**

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

	2019 \$	1 January 2019 \$
Right-of-use assets		
Land and buildings	2,564	5,352
	2,564	5,352
Lease liabilities		
Other liabilities	2,626	5,352
	2,626	5,352

ii) Amounts recognised in the consolidated statement of income:

	2019 \$
Amortisation charge of right-of-use assets – land and building	671
Interest Expense	146
Expense relating to short-term leases (included in operating expense)	56

Total cash outflow for leases in 2019 was \$811.

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. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was a decrease in recognized lease liabilities and right-of-use assets of \$2,117. The revision of the lease terms had no income statement impact.

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

	Within 1 year \$	1-5 years \$	Over 5 years \$	Total \$
Right-of-use liabilities	311	898	1,417	2,626

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***12. INTANGIBLE ASSETS**

The carrying amounts of intangible assets are as follows:

	Customer Lists	Finite Life Software Development Costs	Total
	\$	\$	\$
At 1 January 2018			
Cost	1,001	23,841	24,842
Accumulated amortisation	(142)	(9,381)	(9,523)
Net book value	859	14,460	15,319
Year ended 31 December 2018			
Additions	702	445	1,147
Amortisation	(323)	(2,440)	(2,763)
Closing net book value	1,238	12,465	13,703
At 31 December 2018			
Cost	1,703	24,286	25,989
Accumulated amortisation	(465)	(11,821)	(12,286)
Net book value	1,238	12,465	13,703
Year ended 31 December 2019			
Additions	-	588	588
Disposals	-	(15)	(15)
Disposals – accumulated amortisation	-	15	15
Amortisation	(341)	(2,442)	(2,783)
Impairment Loss	-	(6)	(6)
Closing net book value	897	10,605	11,502
At 31 December 2019			
Cost	1,703	24,859	26,562
Accumulated amortisation	(806)	(14,254)	(15,060)
Net book value	897	10,605	11,502

Software development costs

The Group is engaged in significant development of its new core information systems. Costs associated with the development of the system are deferred, to the extent that the cost satisfies the criteria under *IAS 38 – Intangible assets*, until such time that management determines that a component is available for use in the manner expected and then it is amortised over its useful life. Annually, the Group reviews its software development costs available for use, for evidence of impairment. The Group has determined there is impairment of \$6 in 2019 (2018: \$nil). For software development costs not available for use, management performs an impairment assessment annually in accordance with IAS 36, using the methodology described in Note 2L(ii).

Customer lists

Customer lists are assessed for impairment as per the accounting policy described in Note 2L.

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***13. SEGREGATED FUNDS**

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

Segregated funds – statement of changes in net assets

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

14. OTHER LIABILITIES

	2019	2018
	\$	\$
These include:		
Insurance balances payable	11,266	5,422
Payables and accrued expenses	15,081	10,955
Policyholder dividends payable	5,156	4,990
Lease liabilities	2,626	-
Total	34,129	21,367

Insurance balances payable include amounts payable to reinsurers and brokers.

15. REINSURANCE LIABILITIES

Reinsurance liabilities are comprised of the following:

	2019	2018
	\$	\$
Life and health insurance contracts:		
Participating		
Individual life	2,358	1,956
Non-participating		
Individual life	4,952	4,528
Group life	(1,234)	(1,601)
Total Reinsurance liabilities	6,076	4,883

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

16. RETIREMENT BENEFIT OBLIGATION

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

A. Defined contribution plan

BF&M has established defined contribution pension plans for eligible qualifying employees. Contributions by the Group to these defined contribution plans are subject to certain vesting requirements and are generally a set percentage of an employee's annual income and matched against employee contributions. The cost of the defined contribution pension plans are not reflected in the tables below. An expense of \$380 (2018 - \$362) equating to the service cost for the year for these employees was reported during the year.

B. Post-retirement medical plan

BF&M also sponsors a post-retirement medical benefit plan for its Bermuda employees. The main benefit provided is for health care. Prior to 1 January 2012, the Group paid 50% of the total premiums paid to the insurer and the pensioner paid the balance. Retirees after 31 December 2011 pay 100% of their premiums if they want to continue to be covered by the plan. This change reduced the number of current employees who will be prospectively entitled to benefits.

Cash contributions to the plan by the Group during 2019 were \$106 (2018 - \$109).

C. Defined benefit pension plan

Through BF&M, the Group sponsors a defined benefit pension plan for eligible employees. These plans are closed to new entrants for employees hired after 1999. The defined benefit plan is administered by a separate Fund that is legally separated from the Group. Responsibility for governance of the plans including investment and contributions lies jointly with the Group and the Trustees of the pension fund.

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The scheme is generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2019 were \$nil (2018 – \$340).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plans assets and the present value of the defined benefit obligation was carried out as of 31 December 2019.

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

	2019 \$	2018 \$
Defined benefit pension plan	455	678
Medical benefit plan	(781)	(737)
Total Retirement benefit obligations	(326)	(59)

BF&M LIFE INSURANCE COMPANY LIMITED
Notes to Consolidated Financial Statements
For the year ended 31 December 2019
(in thousands of Bermuda dollars)

	Defined benefit pension plans		Medical benefit plan	
	2019	2018	2019	2018
	\$	\$	\$	\$
Change in benefit obligation				
Balance - beginning of year	13,682	15,348	737	1,101
Current service cost	126	137	-	-
Interest expense	593	546	49	50
Actuarial gains and losses due to changes in:				
Experience	(85)	133	(15)	(211)
Economic assumption changes	1,788	(867)	116	(94)
Changes in asset ceiling, excluding amounts included in interest expense	233	(663)	-	-
Benefits paid	(933)	(952)	(106)	(109)
Total benefit obligation - end of year	15,404	13,682	781	737
Change in plan assets				
Fair value - beginning of year	14,360	14,509	-	-
Interest income	2,449	488	-	-
Employer contributions	-	340	106	109
Plan expenses	(17)	(25)	-	-
Benefits paid	(933)	(952)	(106)	(109)
Total fair value of plan assets - end of year	15,859	14,360	-	-
Net defined benefit asset (liability) recognised in Consolidated Statement of Financial Position	455	678	(781)	(737)

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

Amounts recognised in respect of these defined benefit plans:

	Defined benefit pension plan		Medical benefit plans	
	2019	2018	2019	2018
Net benefit cost recognised in Consolidated Statement of Income	\$	\$	\$	\$
Current service cost	126	137	-	-
Interest expense	593	547	49	50
Expected return on plan assets	(633)	(559)	-	-
Administrative expense	17	25	-	-
Total net benefit cost	103	150	49	50

Re-measured effects recognised in OCI

Returned on plan assets (excluding amounts included in interest income)	(1,815)	71	-	-
Actuarial gains and losses due to change in:				
Experience	(84)	133	(15)	(211)
Financial assumptions	1,788	(867)	116	(94)
Adjustments for restrictions on the defined benefit assets	232	(663)	-	-
Total re-measurement effect	121	(1,326)	101	(305)

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

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***Asset allocation**

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

	2019			2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	\$	\$	\$	\$	\$	\$
Equity and fund investments	6,327	-	6,327	4,976	-	4,976
Fixed income instruments	8,096	-	8,096	7,952	-	7,952
Real estate	-	834	834	-	955	955
Other	-	602	602	-	477	477
Total asset allocation	14,423	1,436	15,859	12,928	1,432	14,360

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

Risk

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

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

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

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

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

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***Actuarial assumptions**

The significant weighted-average assumptions as of 31 December 2019 and 2018 are:

	Defined benefit pension plan		Medical benefit plans	
	2019	2018	2019	2018
	%	%	%	%
Benefit cost during the year:				
Discount rate	2.75	3.75	2.75	3.75
Rate of compensation increase	1.25	2.25	-	-
Medical claims inflation	-	-	4.50	4.50
Defined benefit obligation at end of year:				
Discount rate	2.75	3.75	2.75	3.75
Compensation increase	2.25	3.25	-	-
Medical claims inflation	-	-	4.50	4.50

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 plans are closed to new entrants, these assumptions translate into an average life expectancy in years for a pensioner who retired at age 65:

	Defined benefit pension plan		Medical benefit plans	
	2019	2018	2019	2018
	in years	in years	in years	in years
Male	20.30	20.23	20.30	20.23
Female	22.42	22.38	22.42	22.38

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

	Defined benefit pension plan		Medical Benefit Plans	
	Increase	Decrease	Increase	Decrease
	2019	2019	2019	2019
	\$	\$	\$	\$
Discount rate	1,625	1,980	65	75
Compensation increase	58	55	70	61
Average life expectancy	502	882	49	47

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and change in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the consolidated statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

For the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. The Group's ALM objective is to match assets to the pensions obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

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

Expected contributions to post-employment benefit plans for the year ending 2019 are \$106.

The weighted average duration of the defined benefit obligation is 11.91 years.

The weighted average duration of the medical obligation is 8.97 years.

Future benefit payments

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

	2020	2021	2022	2023	2024-2033
	\$	\$	\$	\$	\$
Defined benefit pension	1,007	1,047	1,115	1,122	14,217
Medical benefit plan	106	104	101	99	942
Total future payments	1,113	1,151	1,216	1,221	15,159

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***17. INVESTMENT CONTRACT LIABILITIES**

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

	2019	2018
	\$	\$
Guaranteed interest pension	297,563	282,493
Term certain annuities	2,045	1,556
Total investment contract liabilities	299,608	284,049

	2019	2018
	\$	\$
At 1 January 20	284,049	281,369
Pension contributions	33,370	39,292
Interest credited	12,039	(1,437)
Benefits paid	(25,272)	(26,268)
Management fees deducted	(14)	(30)
Net transfers out	(4,564)	(8,877)
Total at 31 December	299,608	284,049

18. INSURANCE CONTRACT LIABILITIES**A. Composition of insurance contract liabilities**

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	\$	\$	\$	\$	\$	\$
Life and health insurance contracts						
Participating						
Individual life	34,668	2,358	37,026	30,864	1,956	32,820
Non-participating						-
Individual life	24,067	4,952	29,019	18,612	4,528	23,140
Individual and group annuities	129,666	-	129,666	117,072	-	117,072
Group life	6,102	(1,234)	4,868	7,519	(1,601)	5,918
Health and accident	16,080	-	16,080	16,873	-	16,873
Total insurance contract liabilities	210,583	6,076	216,659	190,940	4,883	195,823

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B. Changes in life and health insurance contract liabilities

	2019			2018		
	Gross \$	Ceded \$	Net \$	Gross \$	Ceded \$	Net \$
Provision for policy benefits	184,144	4,883	189,027	194,845	5,262	200,107
Claims payable	6,099	-	6,099	1,775	-	1,775
Provision for participating policyholders	697	-	697	510	-	510
Life and health insurance contract liabilities - 1 January	190,940	4,883	195,823	197,130	5,262	202,392
Change in provision for policy benefits						
Aging and changes in balances	3,341	196	3,537	2,559	92	2,651
Changes in assumptions:						
Investment returns	16,470	980	17,450	(13,325)	(464)	(13,789)
Mortality	1,017	41	1,058	(258)	(7)	(265)
Lapse	102	4	106	588	15	603
Expense	(274)	(14)	(288)	(779)	(28)	(807)
Other	(662)	(27)	(689)	224	6	230
Other changes	298	13	311	290	7	297
	20,292	1,193	21,485	(10,701)	(379)	(11,080)
Provision for policy benefits	204,436	6,076	210,512	184,144	4,883	189,027
Claims payable	5,062	-	5,062	6,099	-	6,099
Provision for participating policyholders	1,085	-	1,085	697	-	697
Total life and health insurance contract liabilities – 31 December	210,583	6,076	216,659	190,940	4,883	195,823

The majority of the fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities. As assets supporting future policy benefits are reported at fair value on the consolidated statement of financial position, the change in the value of those assets would be largely offset by a change in the value of liabilities, where the duration of the assets and liabilities are closely matched, resulting in limited changes to surplus.

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***C. Composition of the assets supporting liabilities.**

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

2019				
	Fixed income securities	Mortgages and loans	Cash & Equivalents	Total
	\$	\$	\$	\$
Participating				
Individual life	33,515	2,017	1,494	37,026
Non-participating				
Individual life	21,098	5,739	2,182	29,019
Individual and group annuities	101,715	27,668	283	129,666
Group life	1,658	451	2,759	4,868
Health and accident	1	-	16,079	16,080
Total	157,987	35,875	22,797	216,659

2018				
	Fixed income securities	Mortgages and loans	Cash & Equivalents	Total
	\$	\$	\$	\$
Participating				
Individual life	29,180	1,894	1,746	32,820
Non-participating				
Individual life	15,957	5,880	1,303	23,140
Individual and group annuities	85,401	31,470	201	117,072
Group life	1,641	605	3,672	5,918
Health and accident	1	-	16,872	16,873
Total	132,180	39,849	23,794	195,823

19. SHARE CAPITAL

	2019	2018
	\$	\$
Authorised, issued and fully paid - 2,500,000 (2018 – 2,500,000) common share of par value of \$1 each	2,500	2,500

Common shares in issue in the Group rank 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.

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)***20. COMMISSION AND OTHER INCOME**

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

	2019	2018
	\$	\$
Commission and other income	1	(3)
Fees earned from management of insurance contracts	524	1,411
Pension administration income	8,315	7,438
Fee income	767	795
IT asset usage recharge	384	382
Total commission and other income	9,991	10,023

21. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2019	2018
	\$	\$
Gross life and health claims and benefits paid	103,467	100,516
Reinsurance recoveries	(6,000)	(4,023)
Change in insurance contract liabilities	20,292	(10,701)
Change in reinsurance assets	1,193	(379)
Total insurance contracts benefits and expenses	118,952	85,413

22. OPERATING EXPENSES

	2019	2018
	\$	\$
Wages and salaries	10,781	11,296
Professional and consulting fees	1,214	1,233
Postretirement benefit costs	532	562
IT maintenance contracts	4,630	3,869
Advertising and business development	599	267
Bank charges and foreign currency purchase tax	637	966
Office rent, building and utilities costs	526	1,341
Share recovery	(63)	(136)
Compliance, legal and regulatory	1,035	553
Office and administration expenses	96	121
Bad debt	42	(73)
Travel	92	97
Memberships and subscriptions	31	35
Training and development	18	41
Allocation of group expenses	4,463	4,017
Other	200	2
Total operating expenses	24,833	24,191

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019*(in thousands of Bermuda dollars)***23. RELATED PARTIES**

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

A. Sales of insurance contracts and other services

	2019	2018
	\$	\$
Sales of insurance contracts and pension services:		
- Key management	58	65

B. Key management compensation

The following table shows compensation to key management:

	2019	2018
	\$	\$
Salaries and other short-term employee benefits	609	344
Post-employment benefits	18	17
Share based payments	-	27
Total	627	388

C. Loans to related parties

Loans are extended to key management of the Group (and their families) and to companies related to key management. Mortgage terms are typically no more than 20 years in duration and interest rates are consistent with rates charged by the Group to non-related parties.

	2019	2018
	\$	\$
At 1 January	327	337
Loans advances / (repayments)	(31)	(31)
Interest charges	20	21
Total at 31 December	316	327

D. Related party transactions

i) Included in revenue and expenses for the year ended 31 December 2019 are:

- (i) Interest income of \$nil (2018 – \$32) from a loan to Hamilton Financial Limited.
- (ii) Corporate recharges direct from the Parent company or its subsidiaries of \$10,770 (2018 – \$10,281).

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

BF&M LIFE INSURANCE COMPANY LIMITED**Notes to Consolidated Financial Statements****For the year ended 31 December 2019***(in thousands of Bermuda dollars)*

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

	2019	2018
	\$	\$
Due from related parties:		
Direct Parent company	-	7,056
Wholly-owned subsidiaries of the Parent company	1,708	1,708
Partially-owned subsidiaries of the Parent company	598	519
	2,306	9,283
Due to related parties:		
Direct Parent company	4,090	2,983
Wholly-owned subsidiaries of the Parent company	58	58
	4,148	3,041

Included in amounts due to or from the Parent company or wholly-owned subsidiaries of the Parent company at 31 December 2019 are advances to the Parent Company of \$nil (2018 – \$7,056) which are interest free and are repayable upon demand. These advances will be forgiven as dividends are declared to the Parent Company.

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

24. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

	2019	2018
	\$	\$
<i>Items that will not be reclassified to profit or loss:</i>		
Re-measurement of post-employment benefit obligations:	(812)	(590)
Total	(812)	(590)

25. COMMITMENTS**A. Operating Leases**

The Group has entered into various commercial leases with renewable options on office space. The treatment of these leases has changed under IFRS 16, as referenced in Note 3Ai). These leases are now disclosed on the balance sheet as a right-of-use asset and lease liability. Refer to Note 11B.

B. Contingencies

The Group 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.

BF&M LIFE INSURANCE COMPANY LIMITED

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

(in thousands of Bermuda dollars)

26. SUBSEQUENT EVENTS

A. Dividend

On 31 March 2020 the Group declared a dividend to be paid to BF&M in the amount of \$8,000.

B. COVID-19

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

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

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