BF&M LIMITED

ANNUAL REPORT 2013

MISSION STATEMENT

To strengthen and further develop our position as the leading insurer in the jurisdictions where we do business, through a professional, innovative and caring approach to meeting all of the insurance needs of the communities we serve.

Through the excellence of our service, we intend to satisfy the aspirations of our staff, the needs of our policyholders, and the requirements of our shareholders.

GROUP EXECUTIVE

R. John Wight, C.A., CPCU
Group President & Chief Executive Officer

Michael White, FIA
Group Chief Financial Officer

Abigail Clifford, B.A., M.Sc.
Group Chief Human Resources Officer

Marc Shirra, F.C.C.A., A.C.I.I.
Chief Executive Officer
Island Heritage Insurance Company Ltd.

Ingrid Innes, A.G.D.M., M.B.A.
Managing Director & Chief Executive Officer
Insurance Corporation of Barbados Limited

Glen P. Gibbons, B.A., A.C.I.I.
Senior Vice President
BF&M General Insurance Company Limited

Paul Matthews, B.A., PMP
Senior Vice President
BF&M Life Insurance Company Limited

Patrick Neal, B.A., CPCU
Senior Vice President
BF&M Business Development

Bryan O'Neal, M.B.A.
Senior Vice President, Operations and Corporate Strategy
Island Heritage Insurance Company Ltd.

Goulbourne Alleyne, F.C.I.I., M.B.A.
Deputy Chief Executive Officer
Insurance Corporation of Barbados Limited

Mike Rogers
Vice President, Information Technology

DIRECTORS

[1] **Gavin R. Arton,** Chairman, Retired Senior Vice President, XL Capital Ltd.

[2] **L. Anthony Joaquin,** Deputy Chairman, FCA, Retired Managing Partner, Ernst & Young

[2] **Nancy L. Gosling**, B.Comm., LL.D, C.G.A. President & Chief Executive Officer, Gosling Brothers Limited

[1] **Gregory D. Haycock,** FCA, J.P., Retired Senior Partner, KPMG

[1] **Stephen W. Kempe,** President, Admiral Management Services Limited

Catherine S. Lord, B.Sc., J.P., Retired

[1] **Garry A. Madeiros,** OBE, FCA, J.P., Retired President & CEO, Belco Holdings Limited (now named Ascendant Group Limited)

[2] **Aaron E. Smith,** B.Sc.(Hon), M.B.A.,Chairman & CEO, Igility Group of Companies

[1] **Richard D. Spurling,** Retired Partner, Appleby, Barristers & Attorneys

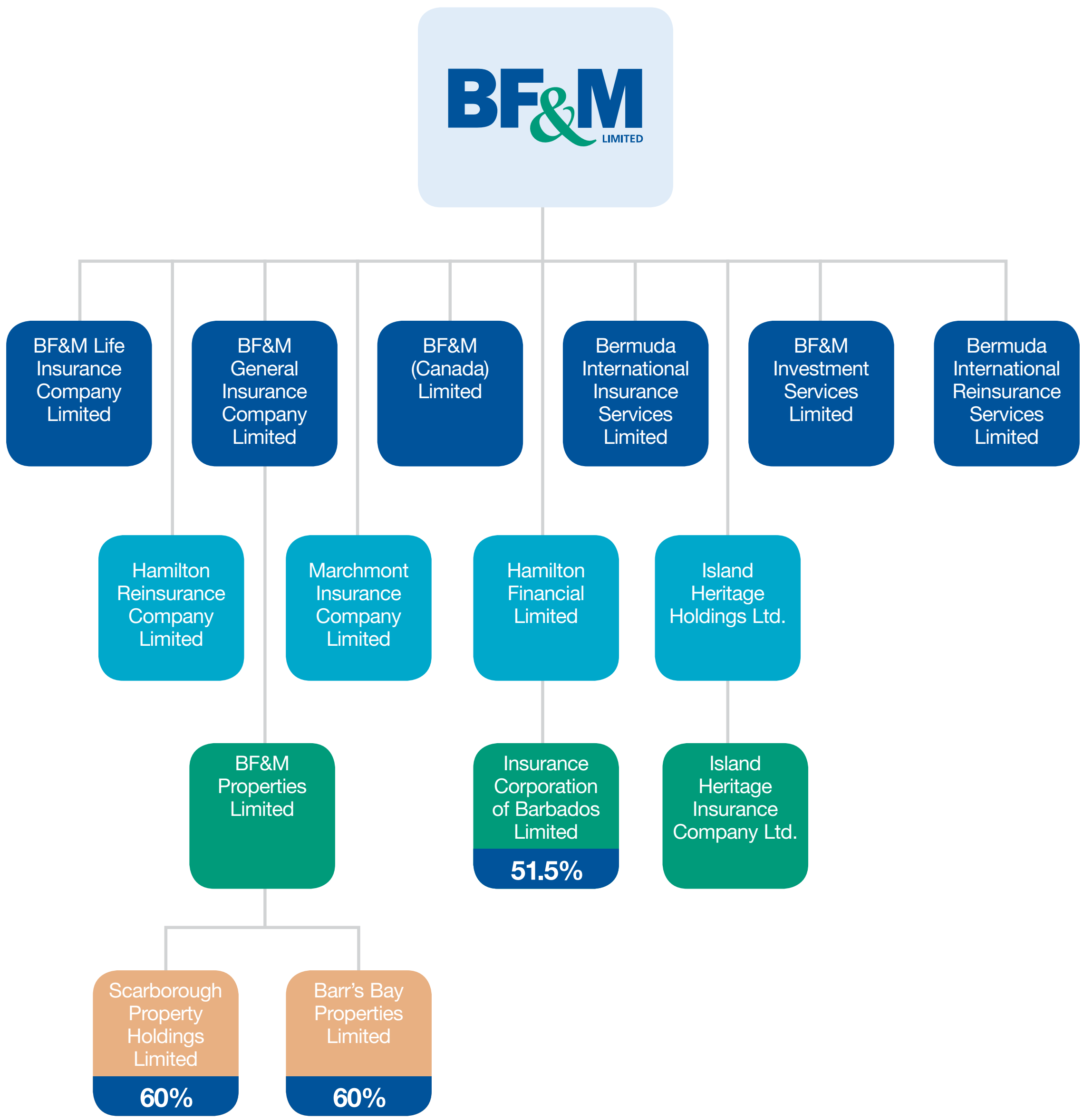
[1] **Ann B. Teixeira,** LLIF, Consultant, Retired Life Insurance Executive, Sun Life Financial (U.S.)

[2] **C.L.F. "Lee" Watchorn,** FCIA, FSA, President, Watchorn Advisory Group

R. John Wight, C.A., CPCU, President & Chief Executive Officer, BF&M Limited

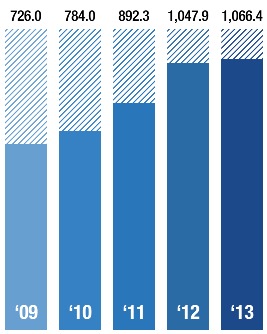
[1]Finance, Compensation & Corporate Governance Committee
[2]Audit, Compliance & Corporate Risk Management Committee

CORPORATE STRUCTURE

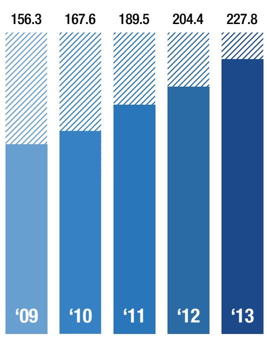


FINANCIAL & STATISTICAL SUMMARY

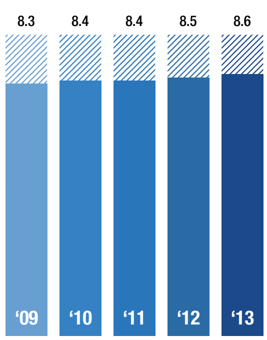
AT END OF YEAR



Total General Fund Assets
in millions of dollars

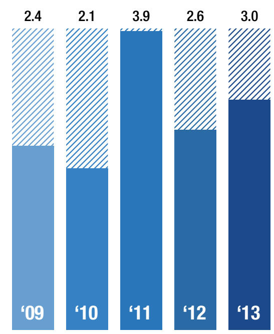


Shareholders' Equity
in millions of dollars

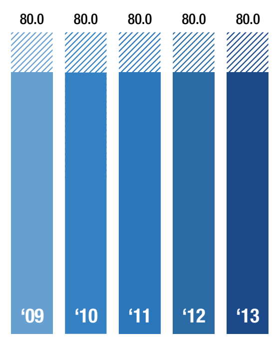


Number of Common Shares
in millions

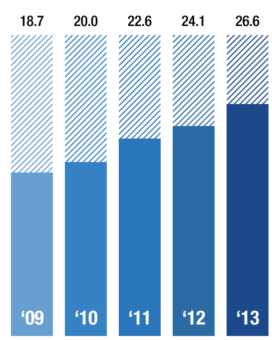
PER COMMON SHARE



Net Earnings
in dollars

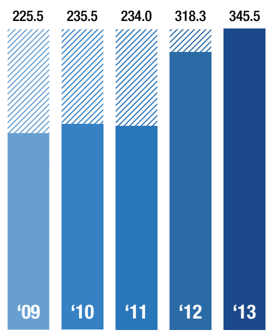


Cash Dividends
in cents

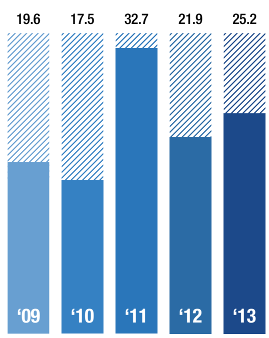


Book Value
in dollars

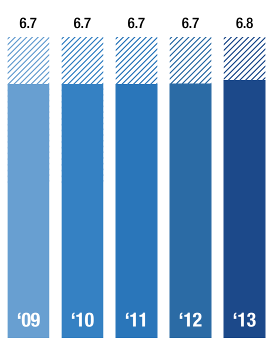
FOR THE YEAR



Gross Premiums Written
in millions of dollars

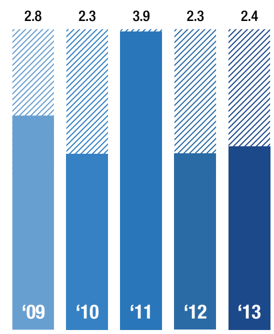


Shareholders' Net Income
in dollars

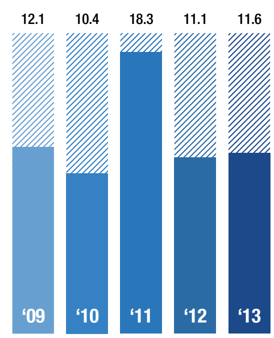


Dividends Declared
in millions of dollars

FINANCIAL RATIOS



Return on Assets
percentage



Return on Common Shareholders' Equity
percentage

R. John Wight, C.A., CPCU
President and Chief Executive Officer

Gavin R. Arton
Chairman

SHAREHOLDERS' REPORT

2013 was another very successful year for BF&M Limited. Net earnings for the year ended 31st December, 2013 were $25.2 million, equating to a return on equity of 11.7%. This compared with earnings of $21.9 million for 2012 and a return on equity of 11.1%. 2013 marked the 13th straight year that BF&M has achieved a return on equity of 10% or greater.

Positive earnings from BF&M's Bermuda and Caribbean based core businesses of insurance, investment advisory and pension administration services were achieved against a back drop of economies that have endured several challenging years. While there are certain signs that the downturn in these economies have bottomed out, sovereign debt levels remain high.

BF&M's strategic plan of being a strong prominent insurer in not just Bermuda, but the Caribbean region, is reaping benefits. Acquisitions of the Insurance Corporation of Barbados in 2006 and Island Heritage in 2012 expanded the Group's operations into selected islands throughout the Caribbean, and the Group is now writing insurance in 17 islands. Acquisitions of these Companies have broadened the Company's foundation for increasing earnings and improved the geographical diversification of the Group's businesses which is important as this reduces the risk of volatility of earnings.

2013 included the first full year of Island Heritage as part of the BF&M Group, and the Company achieved record earnings. A further benefit of this acquisition was that it strengthened the overall management team of the Group. You will note from reviewing the list of members of the Group Executive on pages two and three of this report that the leadership of the BF&M Group now consists of senior managers from BF&M, Island Heritage, and the Insurance Corporation of Barbados. While BF&M's head office is likely to always remain in Bermuda, the senior managers now leading the Group are based in Bermuda, Cayman, Barbados, and Halifax, Canada.

We were pleased that rating agency A.M. Best maintained their Financial Strength Ratings for BF&M's four principal operating companies. A.M. Best's rating system is designed to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Their opinions are derived from an evaluation of a company's balance sheet strength, operating performance and business profile. A.M. Best's ratings for these companies are as follows;

- **BF&M General Insurance Company Limited**
  "A" Excellent

- **BF&M Life Insurance Company Limited**
  "A" Excellent

- **Insurance Corporation of Barbados Limited**
  "A-" Excellent

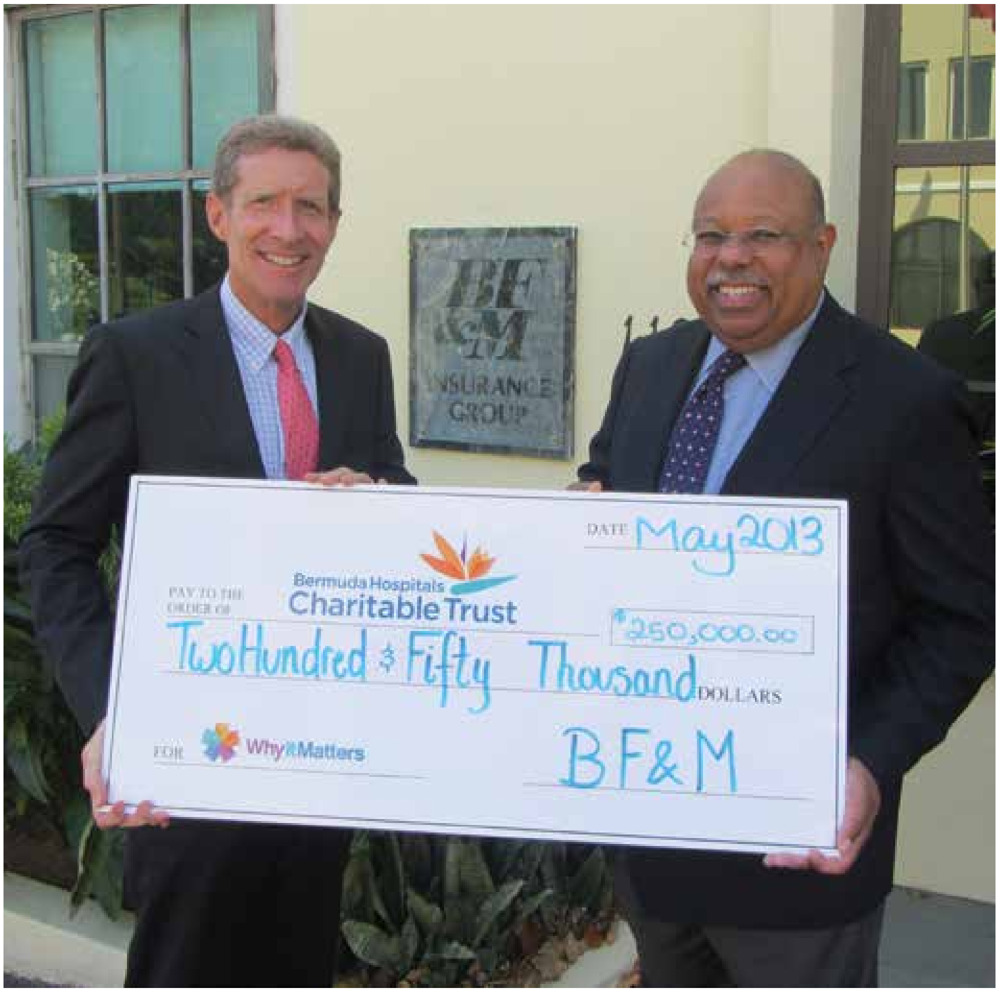
- **Island Heritage Insurance Company Ltd**
  "A-" Excellent

These ratings are the strongest of any local insurer in each of these companies' respective marketplaces.

Focus on the fundamentals of risk management is critical to the success of any financial institution and the Group has a very disciplined approach which will be further strengthened in 2014. The goal of BF&M's risk management program is to ensure that the risk taking activities of the businesses are aligned with the company's strategy and risk appetite to maximize shareholder net income. The BF&M Group results during the global financial crisis in 2007 followed by the recessionary pressures in the countries where we conduct business have been stress tested in real life over the past several years and while there are always areas for improvement, the Company came through that period and continues in very good shape as a result of this focus on risk management.

As we note each year in our report, the accounting policy under International Financial Reporting Standards (IFRS) for valuing investments, in life enterprises in particular can and often does lead to significant volatility of financial results. The Company records its investments at fair value, which in 2013 resulted in a decrease to income of $22.5 million due primarily to rising interest rates on the company's significant, high quality bond portfolio. This decrease of $22.5 million compared with an increase of $5.6 million in 2012.

In order to mitigate some of this volatility from year to year, the Company follows a disciplined asset liability matching policy so that, increases (or decreases) in the fair value of the majority of its investments are matched with corresponding increases (or decreases) in insurance reserves, reducing the net effect on earnings in any one year. In 2013, the difference between fair valuing investments and reserves for BF&M's life


BF&M
INSURANCE
GROUP
DATE May 2013
PAY TO THE ORDER OF
Bermuda Hospitals
Charitable Trust
$250,000.00
Two Hundred & Fifty Thousand DOLLARS
FOR
Why It Matters
BF&M


I'm A
PINK
Ambassador
PINK
Ambassador


The BottomLine
MAGAZINE
December 2013
BERMUDA
2013
TOP
TEN
BF&M Limited
Insurance
BF&M

OPPOSITE PAGE
Top left: BF&M President & CEO John Wight and Phillip Butterfield, Chairman of Bermuda Hospitals Charitable Trust; Bottom left and top right: BF&M supports Habitat for Humanity; Middle right: The BF&M sponsored Breast Cancer Awareness Walk; Bottom right: BF&M's fifth Top Ten Employers Award.

insurance companies produced a net loss of approximately $1.5 million. In 2012, the net difference resulted in a gain of approximately $1.7 million.

Impairment in valuations on certain mortgages in Bermuda continued in 2013 and this reduced earnings by $4.4 million. Mortgages still however continue to play an important role in our asset liability matching program. In the meantime our core businesses of insurance, investment advisory, and pension administration continue to perform well against our peers.

BF&M had eight profit centres in 2013 which we will report on as follows:

- **Bermuda General Insurance**
- **Bermuda Health & Life Insurance, Pension Administration Services**
- **Barbados based operations**
- **Cayman based operations**
- **Bermuda Investment Services**
- **Bermuda Real Estate**
- **Bermuda International Insurance Services**
- **Bermuda International Reinsurance Services**

Bermuda General Insurance

Net earnings were down slightly over 2012, principally due to motor claims being higher than normal both in terms of the number of claims and their severity. Bermuda was again spared the wrath of a hurricane in 2013, however the cost of property claims was up by 33%.

Gross premiums were up marginally for general insurances. We continue to see policyholders reduce their spend on insurance in ways such as converting comprehensive motor cover to third party, and boat owners electing to self-insure or take their vessels out of the water. This is reflective of the ongoing financial challenges that certain policyholders continue to experience. The total number of vehicles insured remained constant during the year. The motor premium was impacted by various initiatives started in 2012 and continued in 2013 in order to retain the customer.

2013 marked the 13th straight year that BF&M has achieved a return on equity of 10% or greater.

The Company continued the practice of purchasing a conservative reinsurance program with world class reinsurers. Our ongoing practice of maintaining strategic relations with superior rated reinsurers does benefit the Company.

Late in 2013, the Company launched the first 24/7 Roadside Assistance programme in Bermuda for our motor car and cycle policyholders. This value added enhancement affords peace of mind to those policyholders who opt to purchase it as they have exclusive breakdown service with a dedicated towing and breakdown specialist, Lowe's Towing Services.

In 2013, the company filed its third Commercial Insurer Solvency Self-Assessment (CISSA) with the Bermuda Monetary Authority ("BMA") and the resulting Bermuda Solvency Capital Requirement (BSCR) ratio was well in excess of the capital requirement set by the BMA, which underlines the financial strength of the Company.

Bermuda Health & Life Insurance, Pension Administration Services

BF&M Life's core businesses of group and individual health, life, annuity, and pension businesses performed well during the year.

Improvements in earnings came about through both new business written and a moderation in the increase in health claims, particularly overseas health claims.

In June, it was announced that a local insurance company had decided to cease offering individual and group health insurance, and that BF&M had agreed to assist with the


Island
Heritage
Island Heritage House
128 Lawrence Boulevard


Charity
Drive!
Charity
Drive!
Charity
Drive!
Charity
Drive!
A'Runnah

OPPOSITE PAGE
Top: Island Heritage House, the Company's Corporate Headquarters in Grand Cayman; Middle left: Customer Service Representative Patrice Myles serves a customer at their Customer Care Centre; Middle right: Rhonda Serrano, Senior Vice President, Marketing & Communications and Marketing Coordinator Latina Young ; Bottom: Island Heritage donates up to $35,000 to three local charities during their much-anticipated Charity Drive event.

2013 included the first full year of Island Heritage as part of the BF&M Group, and the Company achieved record earnings.

transition of groups and individuals to ensure that these policyholders retained this critical coverage. We were very pleased that this transition was very successful and the number of BF&M insured clients for medical insurance now is roughly the same as it was in 2008 prior to the exodus of several thousand workers in the Bermuda job market.

The financing of the health insurance industry is undergoing major changes in 2013/14 with further cost shifting from Government to private insurers. This will unfortunately not reduce the overall cost of health care in Bermuda. What we believe is required is greater emphasis and focus on determining and addressing the root causes of health care inflation in Bermuda. BF&M is playing an active role in industry and Government committees to address some of the underlying causes of the island's high cost of health care.

A focus in 2014 will be on further utilizing technology to continue to reduce costs and improve the customer experience. Recently, BF&M announced that it was the first health insurer to offer clients the ability to have their health claims paid to them direct into their own bank accounts. This is the type of customer service improvement that will differentiate BF&M from our competitors.

Barbados Operations

The financial results of BF&M's Barbados based businesses, through our 51.5% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL") were strong in 2013, and up over the prior year.

The good performance in 2013 was the result of the leadership teams strong focus on excellence in the fundamentals; prudent risk selection, adherence to sound underwriting practices, improved broker relationships, and strong claims management. Earnings were also assisted by certain one time reserve releases which will not reoccur in 2014. While the Company does have a significant market share in its core business of general insurance, it was still able to grow this business through greater efforts in the brokerage market. This is a distribution network that ICBL has not traditionally been successful in, however we started to see positive results from greater focus in 2013.

The Barbados economy is a concern to us, particularly following S&P's credit downgrade of Barbados from BB+ to BB- in late 2013. ICBL holds a significant amount of Government debt and thus we are continuing to monitor carefully the economic situation in Barbados.

Cayman Operations

As reported previously in this report Island Heritage recorded record profits in 2013. As BF&M acquired the company on 30th March 2012, BF&M's earnings for 2013 include the results of Island Heritage for a full year in 2013 as compared to nine months in 2012.

Most of Island Heritage's insurance business is property related, and is sold through agents and brokers. In 2013, a direct marketing campaign was initiated by the Company which has already shown to be successful. The Caribbean had a relatively light year for windstorm activity which contributed greatly to the positive financial results.

During the year the Company acquired the office building that it had been the majority tenant in. In addition to this purchase showing the company's commitment to Cayman, it also allows for certain retail staff who were working in leased accommodation elsewhere to service their customers out of the new company owned headquarters.

President and CEO Garth MacDonald retired from Island Heritage on 31st December 2013. We would like to thank Garth for his years of excellent service to the Company, first as CFO and over the past six years as CEO. The board was pleased to appoint Marc Shirra as his successor. Marc had previously been a Senior Vice President of Business Development with the Company.

Bermuda Investment Services

BF&M Investment Services Limited ("BFMISL") provides pension investment management and consulting services and is fully licensed with the BMA under the Investment Business Act. The company provides a full range of investment services

OUR BRAND EVOLUTION

ICBL has reached a milestone in its existence. Founded in 1978, we adopted the philosophy that every Barbadian should benefit from insurance coverage without a question of affordability. Thanks to our valued customers, we've grown strong and today we celebrate 35 successful years of business in the industry.

From inception, our brand has constantly evolved in order to anticipate market trends and customer needs. Not only have we developed our insurance and financial offerings, we've deepened our social connections and committed more to a greener, healthier environment.

As we continue to grow and evolve, we thought it was time our look evolved too. As we plan for the future of ICBL, we continue to embrace technologies and innovations with a focus on our customers' happiness and a promise to stay rooted in our core values of:

TRUTH, TRUST AND TRANSPARENCY.

Our new brand identity, our logo, better reflects these values and philosophies. And we're happy to share this with you.

There will be many changes as part of our rebranding process but these are only in an effort to enhance customer experience and satisfaction and will not affect the standing of current customer policies, annuities and other contracts, which remain valid.

ICBL wishes to thank all our customers for their business and support. We're excited about our bright future together.

OPPOSITE PAGE

Top: ICBL Staff and Directors at the 35th Anniversary Church Service; Second Line: Rebranded Website and Mobile Website; Wanda Mayers, Henry Inniss, Ingrid Innes and Goulbourne Alleyne in front of the rebranded sign at the ICBL Head Office; Second from the bottom right: ICBL launch the Women On Wheels programme at the Girlfriends' Expo; Bottom right: Staff at a Beach Cleanup.

and provides clients with a wide range of investment options through their network of manager contacts.

BFMISL was integral in the introduction of the Horizon Pension Product which was launched in September of 2013. The Horizon Pension Product is Bermuda's first pension plan to incorporate a "Target Date" investment philosophy which is becoming the standard product design for defined contribution products in North America. BFMISL benefited from the excellent year in the global stock markets.

Bermuda Real Estate

BF&M's Bermuda real estate portfolio consists of three main commercial office buildings that we own and occupy in Hamilton. The Insurance Building continues to house the majority of our staff. BF&M has a majority ownership interest in Aon House and in Argo House. Profits from this division in 2013 as in 2012 reflected fully tenanted properties.

Bermuda International Insurance Services Limited

Bermuda International Insurance Services Limited markets and administers life insurance products to high net worth clients globally who are seeking life insurance products for a variety of planning needs. A strong year in sales in 2013 is attributable to a successful strategy to have referral sources recommend the Company to their clients, and through greater brand recognition in international wealth centers. The Company also benefits from a superior level of service and an experienced leadership team. Earnings were strong in 2013.

Bermuda International Reinsurance Services Limited

Bermuda International Reinsurance Services Limited contracts with International Reinsurance Managers LLC (IRM), to underwrite, market and administer health reinsurance in the Caribbean market. Financial results in 2013 were excellent, following a very good year in 2012.

People and Community

Firstly I would like to extend my gratitude to our Board of Directors, which has continued diligently and respectfully to lead the Company along its successful path this past year.

BF&M continues to perform well with strong company results, and much of that is due to our hard working management and staff. This year we celebrated with our 24 long service awardees, who between them have given some 215 years of service to the Company; a fantastic testament to their outstanding service record. We thank them for their commitment to the Company and the customers we serve.

BF&M continues to perform well with strong company results, and much of that is due to our hard working management and staff.

I was also delighted to promote two of our hard working staff members to the positions of Assistant Vice President this year; firstly Julia Hawkins, in the Pensions Administration department and secondly Marshall Hamilton in our I.T. Infrastructure and Operations department. Both have been with us for a number of years and have shown through example, their hard work and leadership abilities.

We also had the pleasure of welcoming two new employees to our Senior Management Team. In July, Michael White joined us as our new Group Chief Financial Officer and in September, Abigail Clifford joined as our Group Chief Human Resources Officer. They both bring extensive experience in their respective fields and we are delighted to have them on board. Their positions have responsibilities to BF&M Bermuda and Canada, as well as our subsidiary operations in Barbados, and Cayman.

BF&M is proud to be an Investor in People Gold award holder and in continuing our commitment to their standards and to the Life Office Management Association awards. We are delighted to congratulate the following BF&M employees for receiving professional designations in 2013:

Certified Management Accountant
Julia Hawkins

Certified Financial Analyst
Andrew Spencer

Fellow, Life Management Institute
Clifford Morris (Distinction); Kristina Soares (Distinction)

Associate, Reinsurance Administration
Andrew Cormier (Honours); Clifford Morris (Honours)

Associate, Insurance Regulatory Compliance
Carlyle (Julian) Simmons

Associate, General Insurance
Stephen Muso; R. Ché Clarke

Associate, Life Management Institute
Kim Caisey; Andrew Cormier (Honours);
Nika Mason; Kanel Johnson

Associate, Customer Service Designation
Kim Caisey; Andrew Cormier; Nika Mason;
Clifford Morris; Kanel Johnson

Associate, Life Management Institute Level I
Joanne Benevides; Andrew Cormier;
Mark Halpin; Laura Rego

Chartered Property Casualty Underwriter 500
Andrew Hanwell

Underwriting Life & Health Insurance
Sevonne Scott

BF&M was also proud to have again been selected as one of Bottom Line Magazine's 2013 Top Ten Employers in Bermuda, one of only two companies that has steadily placed in the top ten since the awards began five years ago. The survey examined which of the island's companies offered the most rewarding work environment and experience, and the survey pool of participants represents every major industry in Bermuda.

On a personal note, I would like to acknowledge the retirement of Debby Graham who had responsibility for the Bermuda Human Resources function for 13 years. During her tenure, Debby played a key role in establishing our Investors in People and Bermuda's Top Ten employer award achievements. We wish her well in her retirement. In addition, we would like to wish Susan Reed well, who served as BF&M's Chief Operating Officer for six years.

The needs of the Bermuda community continue to grow in our struggling economic times and BF&M operates a targeted approach to our individual donations structure, based mainly on those causes that either align with our business sectors or that are of particular importance to our employees. These are identified through our own endeavours and in conjunction with our local non-profit organisations.

One of the leading organisations that falls into these categories, is Bermuda Cancer and Health Centre (BCHC), and BF&M has continued its lead sponsorship of the October Breast Cancer Awareness Walk and Cancer Prevention Fair, which is now in its 17th year. We also underwrite the associated School Spirit Award, which awards a cash prize to two schools who raise the most funds for the walk. Teams from many of the schools also participate avidly. This walk has become a firm favourite of the community and whilst by design, not a timed event, it is a celebration of all those walking in honour of the survivors or in memory of loved ones. We are always so pleased to see the level of participation, making the programme another huge success. Our staff are very passionate about this cause, as almost everyone has been affected in one way or another by breast cancer and many act as volunteers on the day, alongside the BCHC. This gives us a meaningful and measurable way in which to support the education and research funding needed by the organisation.

The other larger donation made this past year was the $250,000 contribution made to the "Why It Matters" campaign, which is raising funds to transform King Edward VII Memorial Hospital. With healthcare so important to us all, and one of our core businesses, we salute the work already achieved and soon to be completed, to give the island a world-class hospital facility.

Further health and wellness initiatives continued with our 100 Day Challenge. Many will have seen the entertaining and enlightening television programmes from January to April where between 35 to 40 participants compete each year, in teams and individually, to try and lose the most weight and increase their fitness within the 100 days. Participants are given access to trainers, health care experts and nutritionists to enable safe and healthy weight loss and tools to enable them to maintain the loss following the programme.

Our commitment to youth based programmes was broadened with donations given to many smaller non-profits covering all forms of exercise based initiatives. Our larger commitments were made to Camp Cardio; The National High School and Middle School Fitness Challenge and the Under 17 Cricket League. Camp Cardio is a programme to get children engaged in vigorous extracurricular activities and learn about the importance of a healthy lifestyle. This takes place in July and is open to all middle and senior school students. The National High School and Middle School Fitness Challenge is a multi week boot camp to get students moving and fit. Taking place in the fall of each year, fitness levels are tested at the beginning and the end of the challenge to give the students a goal. The Under 17 Cricket League is organized through the Bermuda Cricket Board to encourage team participation and constructive activity for our young men.

Whilst we do not like to talk about our Hurricane Season, nevertheless, there is a valuable service run by The Bermuda Weather Service, who are the official body that issues all storm watches and warnings for Bermuda in conjunction with the National Hurricane Centre. BF&M therefore chose to sponsor both weather.bm and the ZBM nightly weather report each evening. Both vehicles offer useful and timely advice on all weather related issues and help our customers keep abreast on any necessary weather related insurance coverage. Our own website, bfm.bm supports hurricane tips and tracking via the Sharkoil link and can prove very helpful in hurricane season.

Lastly, I would like to salute the volunteer involvement of our employees in our community based programmes, and thank them particularly for the following:

- Spring Lunch for members of the Bermuda Senior Islanders' Centre at Admiralty House;

- Habitat for Humanity programme which helped refurbish a west end home for a family in need; and

- Time and talents spent at The Packwood Home, maintaining the grounds and cleaning the building's roof.

Whilst we have an active and productive sponsorship programme in Bermuda, it should also be noted that our operations in Barbados, Cayman and Canada also participate in local community and charitable causes with great success.

Looking Forward

As referred to earlier in this report, we have delivered to shareholders strong and consistent long term financial results, despite the financial crisis, recession, and prolonged economic weakness in Bermuda and the Caribbean.

Effective 22nd July 2013, following legislation introduced in Bermuda in 2012, BF&M Limited removed all restrictions on foreign ownership of the shares in our Company, which had been in place since the inception of the Company. This decision opened up the pool of available investors for BF&M which in the long term should, through this decision alone, increase shareholder value for shareholders.

2014 will be a year of further collaboration between BF&M, the Insurance Corporation of Barbados, and Island Heritage as we continue joint system and product development and the related synergies that come with working together.

We look forward to the future with great enthusiasm and expectations for even greater success for our shareholders. We have a strong management team supported by dedicated and experienced staff, all led by a supportive and highly skilled Board of Directors.

Gavin R. Arton
Chairman

R. John Wight

R. John Wight, C.A., CPCU
President and Chief Executive Officer


FINANCIAL
STATEMENTS

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

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

The Audit, Compliance, and Corporate Risk Management Committee, 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 shareholders.

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

These consolidated financial statements have been authorised for issue by the Board of Directors on 17 April 2014. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

R. John Wight, C.A, CPCU
Group President and Chief Executive Officer

Michael White, FIA
Group Chief Financial Officer

pwc

23 April 2014

Independent Auditor's Report

To the Shareholders of BF&M Limited

We have audited the accompanying consolidated financial statements of BF&M Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BF&M Limited and its subsidiaries as at 31 December 2013 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

PricewaterhouseCoopers Ltd, Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013
(in thousands of Bermuda dollars)

	Notes	2013 $	2012 (revised) $
Assets			
Cash and cash equivalents	6	74,032	73,986
Fixed deposits	7	2,015	2,000
Regulatory deposits	7	19,399	11,884
Investments	8	709,873	688,109
Insurance receivables and other assets	10	79,723	83,304
Deferred policy acquisition costs	11	9,936	10,155
Reinsurance assets	12	61,433	73,417
Investment properties	13	38,621	40,594
Property and equipment	14	23,710	14,298
Tax recoverable	15	676	1,901
Deferred tax asset	15	-	494
Intangible assets	16	46,969	47,795
Total general fund assets		**1,066,387**	**1,047,937**
Segregated funds assets	17	586,791	478,911
Total assets		**1,653,178**	**1,526,848**
Liabilities			
Other liabilities	18	67,191	68,308
Deferred tax liability	15	880	-
Loans payable	19	18,141	25,821
Retirement benefit obligations	20	2,230	10,319
Investment contract liabilities	21	333,262	317,917
Insurance contract liabilities	22	372,950	377,645
Total general fund liabilities		**794,654**	**800,010**
Segregated funds liabilities	17	586,791	478,911
Total liabilities		**1,381,445**	**1,278,921**
Equity			
Share capital	23	8,558	8,477
Contributed surplus	23	1,482	1,482
Share premium	23	59,037	58,484
Accumulated other comprehensive loss	29	(4,521)	(8,961)
Retained earnings		163,258	144,935
Total shareholders' equity		**227,814**	**204,417**
Non-controlling interests		43,919	43,510
Total equity		**271,733**	**247,927**
Total liabilities and equity		**1,653,178**	**1,526,848**

Gavin R. Arton
Chairman

R. John Wight, C.A., CPCU
President and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2013
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2013 $	2012 (revised) $
INCOME			
Gross premiums written		345,491	318,279
Reinsurance ceded		(130,435)	(142,440)
Net premiums written		215,056	175,839
Net change in unearned premiums	22	(8,231)	2,867
Net premiums earned		206,825	178,706
Investment (loss) income	8	(9,248)	17,236
Commission and other income	24	39,975	47,581
Rental income		4,286	4,108
Total income		241,838	247,631
EXPENSES			
Insurance contracts benefits and expenses			
Life and health policy benefits	25	83,774	105,468
Short term claim and adjustment expenses	25	22,185	18,304
Investment contract benefits		(4,581)	1,235
Paid or credited to policyholder accounts		1,411	1,120
Participating policyholders' net income		(373)	(547)
Commission and acquisition expense		35,191	28,885
Operating expenses	26	63,060	57,401
Amortisation expense		8,250	7,071
Interest on loans		694	733
Total benefits and expenses		**209,611**	**219,670**
Income before income taxes		**32,227**	**27,961**
Income taxes	15	(3,696)	(1,185)
Net income for the year		**28,531**	**26,776**
Non-controlling interests in subsidiaries		(3,380)	(4,891)
Shareholders' net income		**25,151**	**21,885**
Earnings per share			
- Basic	23	$2.95	$2.60
- Fully diluted	23	$2.95	$2.60

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013
(in thousands of Bermuda dollars)

	2013 $	2012 (revised) $
Net income for the year after income taxes	28,531	26,776
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	4,631	(2,525)
	4,631	(2,525)
Items that may be subsequently reclassified to profit or loss		
Investments classified as available for sale		
Fair value gains (losses)	290	(613)
Impairment losses previously revalued through other comprehensive income transferred to net income	-	(180)
Currency translation differences	(56)	21
	234	(772)
Total other comprehensive income (loss) for the year after income taxes	**4,865**	**(3,297)**
Total other comprehensive income attributable to:		
Shareholders	4,440	(2,637)
Non-controlling interests in subsidiaries 4	425	(660)
Total other comprehensive income (loss) for the year after income taxes	**4,865**	**(3,297)**
Comprehensive income	**33,396**	**23,479**
Comprehensive income attributable to:		
Shareholders	29,519	19,248
Non-controlling interests in subsidiaries	3,805	4,231
Comprehensive income	**33,396**	**23,479**

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 15.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013
(in thousands of Bermuda dollars except per share amounts)

	Notes	2013 $	2012 (revised) $
Share capital			
Balance - beginning of year		8,477	8,385
Share issuance under employee share purchase plan	23	22	12
Stock issued under equity incentive plan	23	16	7
Stock grants issued under equity incentive plan	23	43	73
Balance - end of year		**8,558**	**8,477**
Contributed surplus – beginning and end of year		**1,482**	**1,482**
Share premium			
Balance - beginning of year		58,484	57,158
Share issuance under employee share purchase plan	23	345	169
Stock issued under equity incentive plan	23	156	59
Share grants issued under equity incentive plan	23	659	1,098
Deferred share grants issued under equity incentive plan	23	(607)	-
Balance - end of year		**59,037**	**58,484**
Accumulated other comprehensive loss			
Balance – beginning of year		(8,961)	(6,324)
Other comprehensive income (loss) for the year		4,440	(2,637)
Balance - end of year		**(4,521)**	**(8,961)**
Retained earnings			
Balance - beginning of year		144,935	129,796
Net income for the year		25,151	21,885
Cash dividends		(6,828)	(6,746)
Balance – end of year		**163,258**	**144,935**
Total equity attributable to shareholders of the company		**227,814**	**204,417**
Attributable to non-controlling interests			
Balance - beginning of year		43,510	41,768
Net income for the year		3,380	4,891
Other comprehensive income (loss) for the year		425	(660)
Cash dividends		(3,396)	(2,489)
Balance – end of year		**43,919**	**43,510**
Total equity		**271,733**	**247,927**

The impact of the restated balances is disclosed in note 3C.
The dividends paid in 2013 and 2012 were $6,828 ($0.80 per share) and $6,746 ($0.80 per share) respectively.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013
(in thousands of Bermuda dollars)

	2013 $	2012 (revised) $
Cash flows from operating activities		
Income before income taxes	32,227	27,961
Adjustments for:		
Investment income	(24,453)	(24,078)
Net realised loss (gain) on investments	1,171	(1,085)
Change in fair value of investments	21,618	(5,125)
Unrealised loss on investments allocated to insurance contracts	-	1,422
Provision for losses on investments	4,373	5,293
Amortisation of property and equipment	1,949	1,520
Amortisation of investment properties	923	929
Amortisation of intangible assets	4,895	4,621
Impairment of investment properties	1,191	-
Impairment of intangible assets	443	-
Loss (gain) on sale of property and equipment	127	(67)
Interest on loan	694	740
Compensation expense related to shares and options	553	354
Changes in assets and liabilities:		
Regulatory deposits	(7,515)	(11,884)
Insurance receivables and other assets	5,773	7,271
Deferred policy acquisition costs	219	(96)
Reinsurance assets	11,984	157
Insurance contract liabilities	(4,695)	18,131
Investment contract liabilities	15,345	28,340
Other liabilities	(1,117)	(15,040)
Retirement benefit obligations	(3,458)	(2,498)
Cash generated from operations	62,247	36,866
Interest paid	(658)	(740)
Income taxes paid	(1,097)	(1,501)
Interest received	22,261	21,789
Net cash generated from operating activities	**82,753**	**56,414**
Cash flows from investing activities		
Purchase of investments	(251,115)	(267,200)
Proceeds from sales of investments	202,479	235,320
Acquisition of property and equipment	(11,511)	(964)
Purchase of fixed deposit	(15)	(2,000)
Proceeds from sales of property and equipment	23	67
Acquisition of investment properties	(141)	(240)
Acquisition of intangible assets	(4,512)	(2,308)
Acquisition of subsidiary, net of cash acquired	-	(33,635)
Net cash used for investing activities	**(64,792)**	**(70,960)**
Cash flows from financing activities		
Cash dividends paid	(6,828)	(6,746)
Loans repaid	(7,716)	(5,894)
Cash dividends paid to non-controlling interest	(3,396)	(2,489)
Proceeds on issue of common shares	81	221
Proceeds from bank loan	-	28,000
Net cash (used for) from financing activities	**(17,859)**	**13,092**
Effect from changes in exchange rates	(56)	21
Increase (decrease) in cash and cash equivalents	46	(1,433)
Cash and cash equivalents - beginning of year	73,986	75,419
Cash and cash equivalents - end of year	**74,032**	**73,986**

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

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

1. NATURE OF THE GROUP AND ITS BUSINESS

BF&M Limited (the "Group") was incorporated in Bermuda on 5 August 1991, as a holding company, and is a public limited company listed on the Bermuda Stock Exchange. The address of its registered office is: 112 Pitts Bay Road, Pembroke HM08, Bermuda.

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

The Group is involved in property, casualty, motor, marine, life, health and long-term disability insurance, annuities, the management and investment of pension plans, as well as the rental of office space in buildings owned by the Group.

The Group has the following subsidiaries:

	% owned	Principal country of operation and incorporation
BF&M General Insurance Company Limited ("BF&M General")	100	Bermuda
BF&M Life Insurance Company Limited ("BF&M Life")	100	Bermuda
BF&M Properties Limited ("BF&M Properties")	100	Bermuda
Marchmont Insurance Company Limited ("Marchmont")	100	Bermuda
Hamilton Reinsurance Company Limited ("Hamilton")	100	Bermuda
BF&M Investment Services Limited ("BFMISL")	100	Bermuda
Bermuda International Insurance Services Limited ("Bermuda International")	100	Bermuda
Bermuda International Reinsurance Services Limited ("Bermuda International Re")	100	Bermuda
Hamilton Financial Limited ("Hamilton Financial")	100	St. Lucia
Scarborough Property Holdings Limited ("Scarborough")	60	Bermuda
Barr's Bay Properties Limited ("Barr's Bay")	60	Bermuda
Insurance Corporation of Barbados Limited ("ICBL")	51.5	Barbados
Insurance Corporation of Barbados Limited/ National Insurance Board Joint Venture ("ICBLJV")	37.2	Barbados
BF&M (Canada) Limited ("BF&M Canada")	100	Canada
Island Heritage Holdings, Ltd. ("IHHL")	100	Cayman Islands
CRS Holdings Ltd	100	Cayman Islands
Island Heritage (Latin America) Holdings Inc.	100	Puerto Rico
Island Heritage Insurance AI	100	Puerto Rico
Island Heritage Insurance Company, Ltd	100	Cayman Islands
I.H. Americas Insurance Company	100	Puerto Rico
Island Heritage N.V.	100	Netherlands Antiles
Lawrence Boulevard Holdings Limited	100	Cayman Islands

All subsidiary undertakings are included in the consolidated financial statements; in addition, all subsidiaries have a 31 December year-end.

On 30 March 2012, BF&M Limited acquired 100% of the share capital of Island Heritage Holdings, Ltd., the parent company of a specialty property and casualty insurance group headquartered in the Cayman Islands with insurance operations in several Caribbean islands. The results of the operations have been included in the consolidated statement of income from 30 March 2012. Full details on the acquisition are provided in Note 30.

On 17 April 2014, the Board of Directors approved the financial statements and authorised them for issue. The Board of Directors has the power to amend the financial statements after issue.

2. SIGNIFICANT ACCOUNTING POLICIES

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

A. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued and adopted by the International Accounting Standards Board ("IASB") and in accordance with the provisions of the Bermuda Companies Act 1981, as amended.

B. BASIS OF PREPARATION

i) Basis of measurement

The consolidated financial statements have been compiled on the going concern basis and prepared on the historical cost basis, as modified by the revaluation of: available-for-sale financial instruments and certain segregated fund assets and liabilities measured at fair value; retirement benefit obligation 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. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results will differ from those estimates. 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. Areas where estimates and judgment are exercised by management include insurance and investment contract liabilities, intangible assets, fair value of investments, impairment of assets, retirement benefit obligations, and deferred income taxes. Areas where significant estimates and judgments have been applied by management are described further in the significant accounting policies described below.

C. CONSOLIDATION

i) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, including liabilities arising from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income. Acquisition-related costs are expensed as incurred.

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

ii) Transactions with non-controlling interest

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

D. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

E. FOREIGN CURRENCY TRANSLATION

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

iii) Group companies

The financial statements of foreign operations are translated from their respective functional currency to Bermuda dollars, the Group's presentation currency. Assets and liabilities are translated at rates of exchange 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 / (loss).

The exchange rate between Barbadian and Bermudian dollars has essentially remained unchanged since the acquisition of the Barbadian operation in 2005. Cayman Island operation's functional currency is in United States dollars, which are on par with Bermuda dollars. As a result there are no unrealised translation gains and losses to be reported other than for BF&M Canada.

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. The carrying value of cash and cash equivalents approximates their fair value.

G. FIXED AND REGULATORY

Regulatory deposits are held with Regulators as a legal requirement in order to provide services in the respective territories. Fixed deposits are financial assets with maturity dates longer than 90 days and are held with financial institutions. The carrying value of regulatory and fixed deposits approximates their fair value.

H. FINANCIAL INSTRUMENTS

Financial assets

Classification, recognition and subsequent measurements of financial assets

The Group classifies its investments into the following categories: (i) financial assets at fair value through profit and loss ("FVTPL"); (ii) held-to-maturity; (iii) loans and receivables; and (iv) 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.

(i) FVTPL

A financial asset is classified at FVTPL if it is designated as such upon initial recognition or is classified as held-for-trading. Attributable transaction costs upon initial recognition are recognised in investment income in the consolidated statement of income as incurred. FVTPL assets are measured at fair value and changes in fair value as well as realised gains and losses on sales are recognised in investment income in the consolidated statement of income. Dividends earned on equities are recorded in investment income in the consolidated statement of income. Derivatives are also categorised as held-for-trading unless they are designated as hedges (the Group has not designated any derivatives as hedges).

(ii) Held-to-maturity financial assets
Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that the Group has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses. Amortisation of premiums and accretion of discounts are included in investment income in the consolidated statement of income. Fair values for bonds are determined by discounting expected future cash flows using current market rates.

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

(iii) 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 bonds and fixed income securities (held in Barbados), mortgages and other loans. Realised gains or loss from sale of loans and receivables are recorded in investment income in the consolidated statement of income. Fair values for bonds and fixed income securities, mortgages, and other loans classified as loans and receivables are determined by discounting expected future cash flows using current market rates. For collateralized mortgages, fair value reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

(iv) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Equities are subsequently carried at fair value. 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 securities 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.

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

De-recognition and offsetting
The Group derecognises a financial asset when the Group has transferred the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred, which is normally the trade date.

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

Financial liabilities

Classification, recognition and subsequent measurement of financial liabilities
The Group has the following financial liabilities: (i) financial liabilities at FVTPL and (ii) other financial liabilities. Management determines the classification at initial recognition.

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

(ii) Other financial liabilities
All remaining financial liabilities are classified as other financial liabilities which include investment contract liabilities, loans payable, bank borrowings and other liabilities. Such financial liabilities are initially recognised at fair value plus any directly attributable transaction costs. Loans payable and bank borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the consolidated statement of income over the period of the loan using the effective interest rate method. Included under other liabilities are accounts payable. Other liabilities are considered short-term payables with no stated interest and the carrying value of these financial liabilities approximates fair value at the reporting date.

The Group initially recognised loans payable on the date the loan originated. All other liabilities (including liabilities designated at FVTPL) are recognised initially on the trade date at which the Group becomes a party to the contractual provision of the instrument.

I. IMPAIRMENT OF ASSETS

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 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 and (iii) significant deterioration in the fair value of the security underlying financial asset.

i) Loans and receivables
When loans and receivables assets (other than collateralized 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 collateralized mortgage loans the carrying amount is reduced to its recoverable amount, being the future cash flow of the collateralized value less cost to sell discounted at the original effective interest rate of the instrument. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in investment income in the consolidated statement of income.

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

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

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

J. INVESTMENT PROPERTIES

Investment properties are defined as properties with an insignificant portion that is owner occupied and are held for long-term rental yields or capital appreciation and comprise freehold land and buildings. Properties that do not meet these criteria are classified as property and equipment. Investment properties are initially recognised at cost in the consolidated statement of financial position. Subsequently, investment properties are carried at historical cost less depreciation. Depreciation on investment properties is calculated using the straight-line method over 50 years, excluding land and its residual value. Rental income from investment properties is recognised on a straight-line basis over the term of the lease in rental income in the consolidated statement of income. Expenditures relating to ongoing maintenance of investment properties are expensed.

Fair values for investment properties are determined using the most recently available reports from independent qualified appraisal services. Values are calculated as follows: 1) using a weighted average value of the following methods: a) replacement cost approach to estimate the value of the cost to produce buildings of an equivalent function plus market value of the land, less an allowance for depreciation; and b) 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 assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

K. PROPERTY AND EQUIPMENT

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

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

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

The assets' residual values, useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in commissions and other income in the consolidated statement of income.

L. INTANGIBLE ASSETS

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

i) Finite life intangible assets

Intangible assets that were determined to have finite lives are amortised on a straight line basis over varying periods of up to 10 years, being the estimated expected lives. The estimated life is re-evaluated annually. These assets include the following:

Customer relationships and contracts

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

Distribution channel
These assets, which comprise agent and bank relationships acquired as part of the business combination with IHHL, were initially measured at fair value by estimating the net present value of future cash flows from these relationships based on a historical ratio of 90% of gross written premium arising from this distribution channel on business in force at the date of acquisition. Subsequently, these assets are carried as cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 10 years, being the expected life of the business assumed and the business channel relationship.

IHHL brand
The IHHL brand acquired in the business combination was initially measured at fair value based on the relief of royalty method at the date of acquisition. Subsequently, these assets are carried as cost less accumulated amortisation. Amortisation is calculated using the straight line basis over 5 years, based on the expected timing of a potential re-branding strategy for this business.

Software development costs
Cost 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 intangible assets when:

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

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

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

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

iii) Indefinite life intangible assets
The ICBL brand is recorded at historical cost and was determined to have an indefinite life because there is no foreseeable limit to the cash flows generated by these intangible assets. Indefinite life intangible assets are not amortised. Impairment of this asset is assessed on an annual basis or more frequently if events or circumstances occur that may indicate that the carrying amounts may not be recoverable

M. INSURANCE AND INVESTMENT CONTRACT CLASSIFICATION

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

1. Insurance contracts

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

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

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

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

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

i) Deferred policy acquisition costs ("DAC") related to insurance contracts

For short term insurance contracts, commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the term of the policies as premium is earned.

ii) 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. 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. Amounts recoverable from or due to reinsurers are measured consistently with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. 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.

iii) Insurance contract liabilities

Life and health insurance contracts

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

The insurance liabilities under CALM are calculated by projecting asset and liability cash flows under a variety of interest rate scenarios using best estimate assumptions, together with margins for adverse deviations with respect to other contingencies pertinent to the valuation. Long term business provisions make sufficient allowance for the expected experience scenario and for adverse deviations in experience. Liabilities derived through an approximation to CALM rely on a combination of Group and industry specific experience in order to determine the best estimate assumptions and corresponding margins for adverse deviations, the largest of which, the group and individual health reserves, relies on a

5 year 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 Bermuda International Re, 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 program as this time period is felt to be the minimum time necessary to determine underwriting results.

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

Short-term insurance contracts

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

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

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

iv) Liability adequacy test

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

2. Investment contracts

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

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

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

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

Section i) outlines the recognition and measurement of material financial line items related specifically to investment contracts.

i) Investment contract liabilities

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 are measured at fair value through profit and loss ("FVTPL") except for certain annuity products measured at amortised cost. Contracts recorded at FVTPL are measured at fair value at inception and each subsequent reporting period using CALM or an approximation of CALM. Contracts recorded at amortised cost are initially recorded at fair value and remeasured at amortised cost in each subsequent period using the effective interest rate. 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.

3. 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 2I above. The impairment loss is calculated using the same method used for these financial assets.

N. SEGREGATED FUNDS ASSETS AND LIABILITIES

Segregated funds assets and liabilities relates to contracts issued by the Group where the benefit amount to the policyholder is directly linked to the fair value of the investment held in the particular segregated fund. The underlying assets are registered in the name of the Group and the segregated fund policyholder has no direct access to the specific assets. The contractual arrangements are such that the segregated fund policyholder bears the risk and rewards of the fund's investment performance. There is also no insurance risk to the Group with these contracts. Segregated funds net assets are recorded at fair value. The fair value of the segregated funds net liabilities is equal to the segregated funds net assets. Income earned on the management of these contracts is included in commission and other income in the consolidated statement of income. Investment income earned by the segregated funds and expenses incurred by the segregated funds are not presented in the consolidated statement of income and are disclosed in Note 17.

O. LOANS TO POLICYHOLDERS

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

P. CURRENT AND DEFERRED INCOME TAX

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

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

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

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

Q. EMPLOYEE BENEFITS

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

i) Pension obligations

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

A defined benefit plan is a pension plan which the Group is obligated to pay a specified benefit based on a predetermined formula. The 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, together with adjustments for unrecognised actuarial gains or losses. 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. Annual changes in net assets or obligations arising from plan amendments and transitional amounts are amortised over the expected average remaining service life of the employees covered by the plan.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past services cost are recognised immediately in the consolidated statement of income.

ii) Other post-employment obligations

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

These costs are recognised on an accrual basis during the years when service is provided to the Group, except for the Bermuda retiree plan where only the interest on the obligation is recognised in the consolidated statement of income as this is a closed plan. Annual changes in the post-retirement benefits for health care obligations arising from plan amendments are amortised on a straight-line basis over the expected average remaining service life to full eligibility age of employees covered by the plan. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

iii) Share-based compensation

The Group has an Equity Incentive Plan which is described in Note 23 under which the entity receives services from employees as consideration for equity instruments of the Group (equity settled transactions). Stock grants are issued to employees equal to the fair value of the shares on the grant date. The amount of the benefit of these share grants is amortised over the vesting period as operating expense in the consolidated statement of income.

If the Group grants share options to employees that vest in the future if they are still employed, 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.

The grant by the Group of its equity instruments to employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

iv) Employee share purchase plan

The Group operates an employee share purchase plan that allows its employees to purchase the Group's common shares at below-market rates, subject to certain restrictions. Shares are offered at a discount to the shares' fair market value, as determined by the market share price on the date of purchase. Employees may purchase shares up to a maximum percentage of their gross salary. The discount is charged to compensation expense in the period in which the shares are purchased.

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 Bermuda International Re are recognised based on receipts reported by the ceding company. This occurs when the timeliness and quality of information reported is not sufficient to otherwise record the revenue when due.

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

For short-term insurance products, premiums written are earned on a pro-rata basis over the terms of the policies to which they are related. Unearned premiums represent the portion of premiums written that relate to the period of risk subsequent to the year-end. Unearned premiums are included as a component of insurance contract liabilities in the consolidated statement of financial position.

ii) Commission income

For short-term reinsurance contracts, commission income is recognised over the term of the related reinsurance contracts and in accordance with the expensing of the related reinsurance premiums. Commission income on long-term insurance contracts is recognised when earned and the amount is readily determinable. The recognition of profit commissions is also dependent on the loss experience underlying such reinsurance policies.

iii) Service contracts

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

S. LEASES

The Group leases investment properties. Leases, in which a significant portion of the risks and rewards of ownership are retained by the Group as the lessor, are classified as operating leases. Lease arrangements are fixed and payments are charged to the consolidated statement of income on a straight-line basis over the period of the lease. In addition the tenant can renew their lease when their tenancy is nearing expiry. There are no contingent rentals included in the lease agreements. Lease expenses are included within operating expenses in the consolidated statement of income.

T. 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.

U. DIVIDEND DISTRIBUTION

Dividend distribution to the Group's shareholders' is recognised as a liability in the consolidated statement of financial position in the period in which the dividends are approved by the Group's Board of Directors.

V. EARNINGS PER SHARE

Basic earnings per share is presented in the consolidated statement of income and is calculated by dividing the shareholders' net earnings for the year by the weighted average number of ordinary shares outstanding at the reporting date.

Diluted earnings per share is calculated by dividing the shareholders' net earnings by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. When there is a loss, no potential common shares are included in the computation of fully diluted earnings per share.

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

3. NEW AND REVISED ACCOUNTING STANDARDS

A. NEW AND REVISED ACCOUNTING STANDARDS ADOPTED IN 2013

The Group has applied the following new and revised standards issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the accounting period beginning 1 January 2013.

Amendments to:

IFRS 10	*Consolidated Financial Statements* ("IFRS 10")
IFRS 11	*Joint Arrangements* ("IFRS 11")
IFRS 12	*Disclosure of Interests in Other Entities* ("IFRS 12")
IFRS 13	*Fair Value Measurement* ("IFRS 13")
IAS 1	*Presentation of Financial Statements* ("IAS 1")
IAS 19	*Employee Benefits* ("IAS 19")
IAS 27	*Separate Financial Statements* ("IAS 27")

With the exception of the amendments to IAS 19 included in Note 3C, the adoption of the new and revised standards did not have a significant impact on the Group's consolidated financial statements. Additional disclosures required by IFRS 13 are included in Note 9.

B. NEW AND REVISED ACCOUNTING STANDARDS TO BE ADOPTED IN 2014 OR LATER

The following new standards and amendments to existing standards were issued by the IASB and are expected to be adopted by the Group in 2014 or later.

IAS 32 - Financial Instruments: Presentation ("IAS 32") amendments were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after 1 January 2014. The Group is currently assessing the impact the adoption of these amendments will have on the Group's financial statements.

IAS 36 – Impairments of assets ("IAS 36") amendments were issued on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of the CGU's which had been included in IAS 36 by the issue of IFRS 13. The effective date is for annual periods beginning on or after 1 January 2014. The Group is currently assessing the impact the adoption of these amendments will have on the Group's financial statements.

IFRS 9 - Financial Instruments ("IFRS 9") requires financial assets to be measured at fair value or amortised cost while eliminating the existing categories of Available-for-Sale, Held To Maturity and Loans and receivables. It also changes the accounting for financial liabilities measured using the fair value option. The effective date is for annual periods beginning after 1 January 2015. The amendments also provide relief from the requirements to restate comparative financial statements. The Group is currently assessing the impact of IFRS 9.

IFRS 4 – Insurance Contracts ("IFRS 4") specifies the financial reporting for insurance contracts by an insurer. The current standard is Phase 1 in the IASB's insurance contract project and does not specify the recognition or measurement of insurance contracts. This will be addressed in Phase II of the IASB's project. The draft proposal includes a number of significant changes in the measurement and disclosure of insurance contracts. The Group will continue to monitor the progress of the project in order to assess the potential impact the standard will have on its results and the presentation and disclosure thereof.

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

C. REVISION MADE TO PRIOR YEAR FINANCIAL STATEMENTS

The following information summarises the impact of the retrospective applications of the amendments of IAS 19, revisions made for out of period adjustments and certain reclassifications made to conform to the current year presentation.

Impact upon adoption of the amendments of IAS 19

The Group amended its accounting policy to fully recognise all actuarial gains and losses in Other Comprehensive Income. The actuarial gains and losses arise from the Group's post-employment benefit and medical pension plans.

Revision of comparative financial statements

In conjunction with the preparation of consolidated financial statements for the year ended 31 December 2013, management identified certain out of period adjustments which were either not recorded in prior years or recorded in prior years as an out of period adjustment. In order to ensure the current year's consolidated financial statements were not materially misstated, management has reflected these adjustments in the comparative financial statements presented. The adjustments were not material to any individual year. Each of the out of period adjustments are described below:

1) Reinsurance catastrophe excess of loss – An error was identified in the calculation of premium and commission for one of the Group's catastrophe reinsurance contracts. This resulted in an understatement of net income in 2012 by $1,300.

2) Tax expense accrual - During 2013 the Group performed an assessment of taxes it may be liable for in all the territories it is licensed to do business. Upon completion it was found the Company had been under paying and accruing withholding and profit taxes in certain territories it operates. This resulted in an under accrual of the 2012 income tax expense by $648 and 2012 commission and acquisition expense by $242.

3) Pension redemption – Redemptions for certain annuity policies were recorded incorrectly as part of the segregated fund accounts rather than to the general fund. This resulted in a total understatement of the life and health policy benefits expense of $1,493 occurring over multiple prior years, of which $204 related to 2012.

4) Due to / from segregated funds – As a result of improving the Group's control environment pertaining to segregated fund accounts, a total understatement of life and health policy benefits expense of $1,135 was noted occurring over multiple years, of which $9 related to 2012.

5) Pension contributions – During the year ended 31 December 2012, it was discovered that the retirement benefit obligation liability was miscalculated in the previous year. This resulted in an understatement of the retirement benefits obligation expense for 2011 by $2,274, which was initially corrected in the financial statements for the year ended 31 December 2012 as an out of period adjustment. The revision is to account for the error in the correct accounting period.

6) Understatement of insurance balances receivable – During the year ended 31 December 2012, it was discovered that insurance balances receivable were understated and resulted in group life premium income being understated in prior years by $1,402. This was initially corrected in the financial statements for the year ended 31 December 2012 as an out of period adjustment. The revision is to account for the error in the correct accounting period.

7) Commission income - During the year ended 31 December 2012, it was discovered that the Group had not recognised the claims reserve fund held by the reinsurers as an asset. This resulted in an understatement of commission income in the amount of $562 for those years prior to 2012. This error was initially corrected in the financial statements for the year ended 31 December 2012 as an out of period adjustment. The revision is to account for the error in the correct accounting period.

Reclassifications of comparative figures

For the year ended 31 December 2013, certain prior period balances have been reclassified to conform to the current year's presentation.

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

Consolidated Statement of Financial Position

At 31 December 2012	As reported $	Amendments for IAS 19 $	Amendments for out of period adjustments $	Reclassifications $	Revised $
Assets					
Insurance receivables and other assets (1)	81,868	-	1,021	415	83,304
Tax recoverable (2)	2,549	-	(648)	-	1,901
Liabilities					
Other liabilities (3-5)	65,297	-	2,560	451	68,308
Loans payable	25,857	-	-	(36)	25,821
Retirement benefit obligations	7,108	3,211	-	-	10,319
Deferred tax liability (asset)	614	(134)	-	-	480
Equity					
Retained earnings (1-6)	142,806	4,316	(2,187)	-	144,935
Accumulated other comprehensive loss	(2,805)	(6,890)	-	734	(8,961)
Non-controlling interests	44,747	(503)	-	(734)	43,510

At 1 January 2012	As reported $	Amendments for IAS 19 $	Amendments for out of period adjustments $	Reclassifications $	Revised $
Liabilities					
Other liabilities (3-5)	42,765	-	3,285	-	46,050
Retirement benefit obligations	9,748	544	-	-	10,292
Deferred tax liability	427	(60)	-	-	367
Equity					
Retained earnings (1-7)	128,049	4,471	(2,724)	-	129,796
Accumulated other comprehensive loss	(2,033)	(4,639)	-	348	6,324
Non-controlling interests	42,431	(315)	-	(348)	41,768

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

Consolidated Statement of Income / Other Comprehensive Income

For the year ended 31 December 2012	**As reported $**	**Amendments for IAS 19 $**	**Amendments for out of period adjustments $**	**Reclassifications $**	**Revised $**
Gross premium written (6)	319,681	-	(1,402)	-	318,279
Reinsurance ceded (1)	(142,750)	-	310	-	(142,440)
Commission income (1 & 7)	47,122	-	459	-	47,581
Life and health policy benefits (3)	105,264	-	204	-	105,468
Short term claims and adjustment expense	18,215	-	-	89	18,304
Commission expense (2)	25,307	-	242	3,336	28,885
Operating expenses (5)	63,081	10	(2,265)	(3,425)	57,401
Income tax expense (2)	(477)	(60)	(648)	-	(1,185)
Non-controlling interests	(4,805)	(86)	-	-	(4,891)
Net earnings attributable to Shareholders	21,503	(156)	583	-	21,885
Other comprehensive income (loss)					
Re-measurement of retirement benefit obligation	(772)	(2,525)	-	-	(3,297)
Earnings per share:					
Basic	2.55				2.60
Fully diluted	2.55				2.60

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, minimizing its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Group's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

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

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

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

Assets which relate to certain life insurance and investment contracts are managed for the account and risk of the Group's customers. They are segregated and managed to meet specific investment objectives of the policyholders. The assets back the insurance liabilities and the financial liabilities arising from these contracts. The fair value of the liabilities reflects the fair value of the assets. The assets and liabilities from segregated account and private placement life insurance are excluded from the Group's financial risk management considerations to the extent that the risks are borne by the customers.

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

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 minimize undue concentration of assets in any single group, asset class or credit rating;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Transacting business with well-established reinsurance companies with strong credit ratings.

Maximum exposure to credit risk – Financial assets

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.

	2013	**2012**
	$	**$**
Cash and cash equivalents	74,032	73,986
Fixed and regulatory deposits	21,414	13,884
Investments	704,795	683,008
Available for sale investments	5,078	5,101
Insurance receivables and other assets	79,723	83,304
Reinsurance assets	61,433	73,417
	946,475	**932,700**

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

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 bonds and fixed income securities by industry sector and geographic distribution:

	2013 $	**2012 $**
Bonds and fixed income securities issued or guaranteed by:		
Financials	91,700	97,900
Government	119,221	111,541
U.S. Treasury and other agencies	161,196	173,324
Utilities and energy	64,714	61,861
Consumer staples and discretionary	56,928	54,095
Telecom	19,900	13,508
Computer technology products and services	15,639	14,253
Industrials	15,388	17,945
Other	18,194	15,671
Total bonds and fixed income securities	**562,880**	**560,098**
United States	356,927	352,902
Barbados	102,406	110,175
Canada	39,478	47,748
Northern Europe	24,676	24,034
Asia-Pacific	9,646	11,485
United Kingdom	11,311	7,274
Caribbean	15,243	3,616
Other	3,193	2,864
Total bonds and fixed income securities	**562,880**	**560,098**

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

	2013 $	**2012 $**
Bermuda	96,842	93,998
Barbados	3,929	4,119
Total mortgages and loans	**100,771**	**98,117**

Credit quality of bonds and fixed income securities

	2013 $	**2012 $**
Bonds and fixed income securities		
AAA	29,248	38,192
AA	236,566	229,660
A	167,580	164,704
BBB	28,077	28,625
BB and lower	83,205	83,674
Not rated*	18,204	15,243
Total bonds and fixed income securities	**562,880**	**560,098**

* Not rated bonds and fixed income securities relate to assets held within the Group's investment portfolio which are held by counterparties that are not rated by the rating agencies.

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

Mortgages and loans credit risk

Mortgages comprise first mortgages on real property situated in Bermuda and Barbados. Bermuda mortgages are registered under The Mortgage Registration Act 1976 and The Trustee Act 1975. In Barbados, loans provided to companies are secured by a certificate of annual repayment of principal and interest by the Barbados National Bank. Other loans are secured by a collateral assignment of life insurance policy proceeds and irrevocable beneficiary designation.

Mortgages and loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of collection of the full amount of principal and interest due.

The following table provides carrying amounts of the loans by their aging profile:

	2013 **$**	**2012** **$**
Not past due	73,670	73,838
Past due but not impaired:		
Past due less than 90 days	9,725	10,766
Past due 90 to 180 days		
Past due 180 days or more	2,170	1,917
Impaired (net of impairment provisions)	15,206	11,596
Total mortgages and loans	**100,771**	**98,117**

Interest accrued on the impaired mortgages amounted to $2,673 as at 31 December 2013 (2012: $1,580).

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

	2013 **$**	**2012** **$**
At 1 January	5,919	907
Increase in impairment and provision allowances	4,373	5,012
At 31 December	**10,292**	**5,919**

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations as they become due. In order to manage liquidity risks, management maintains levels of cash and short-term deposits, which are sufficient to fulfill the Group's short-term obligations. The Group also closely manages operating liquidity through cash flow matching of assets and liabilities on its life insurance, annuities and pensions business.

A significant business objective of the insurance industry is to match the cash flows of the investment portfolio with the expected payment of policy liabilities.

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

The maturity profile of investments at 31 December 2013 is as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Corporate loans	3,487	-	-	-	3,487	1.86%-2.36%
Policyholder loans	696	384	384	2,878	4,342	4.75%-8.25%
Mortgages	28,267	4,936	4,567	55,172	92,942	2.75%-9.00%
Bonds and fixed income securities	51,525	226,795	94,097	190,463	562,880	0.25%-9.75%
	83,975	232,115	99,048	248,513	663,651	
Percent of total	12.7%	35.0%	14.9%	37.4%	100.0%	

The maturity profile of investments at 31 December 2012 was as follows:

	Within 1 year $	2 to 3 years $	4 to 5 years $	Over 5 years $	Total $	Effective interest rate ranges
Corporate loans	3,487	-	-	-	3,487	1.86%-2.36%
Policyholder loans	692	384	384	2,884	4,344	4.75%-8.25%
Mortgages	10,423	11,602	5,969	62,292	90,286	2.70%-9.00%
Bonds and fixed income securities	63,898	110,665	197,283	188,252	560,098	0.13%-10.75%
	78,500	122,651	203,636	253,428	658,215	
Percent of total	11.9%	18.6%	31.0%	38.5%	100.0%	

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

The maturity profile of liabilities at 31 December 2013 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	67,191	-	-	67,191
Loans payable	7,601	10,540	-	18,141
Investment contract liabilities	38,154	248,452	46,656	333,262
Insurance contract liabilities	127,262	52,257	193,431	372,950
Total	**240,208**	**311,249**	**240,087**	**791,544**

The maturity profile of liabilities at 31 December 2012 was as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	67,723	585	-	68,308
Loans payable	7,680	18,141	-	25,821
Investment contract liabilities	81,077	236,235	605	317,917
Insurance contract liabilities	134,278	47,704	195,663	377,645
Total	**290,758**	**302,665**	**196,268**	**789,691**

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 is not significantly exposed to foreign exchange risk because of the following:

- The majority of the Group's assets, liabilities, and earnings are denominated in Bermuda, Barbados or United States dollars;
- The Bermuda and United States dollar are at par;
- The exchange rate between Bermudian and Barbadian dollars has remained unchanged since the acquisition of the Barbadian entity;
- Contracts written in the Cayman Islands are denominated in United States dollars;
- Contracts written in the Bahamas are denominated in United States or Bahamian dollars which are at par; and
- The Group's Canadian operation is fully integrated. Its assets and liabilities are not considered material.

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 4 B - Insurance Risk below. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If interest yields on the fixed income assets supporting non-life insurance liabilities and surplus had been 100 basis points higher/lower, profit would have been $1,102 (2012 - $1,703) higher/lower. The interest rate sensitivity impact was calculated using the modified duration method.

Price risk

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

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

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

A 5% increase/decrease in the value of the Group's equity portfolio would increase/decrease the Group's comprehensive income by $1,075 (2012 - $342) and the Group's other components of equity by $229 (2012 - $231). The price risk sensitivity impact was calculated by using the ending balances in equity at a 5% increase/decrease.

B. INSURANCE RISK

i) Life and health insurance risk

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

Management of life and health insurance risks

The Group has developed an insurance risk policy and guidelines on the practical application of this policy. Individual insurance risks are managed at a business unit level but are also monitored at 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 and Dynamic Capital Adequacy Test ("DCAT") and Minimum Continuing Capital and Surplus Requirement ("MCCSR") analysis.

The Risk Committee monitors the application of the risk policy in each business, and receives management information on life and health insurance risks. The committee considers all areas of insurance risk, but in particular has a remit to monitor mortality, longevity, morbidity, persistency, product design and pricing.

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

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

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

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group companies select reinsurers, from those approved by the Group, based on local factors, but assess the overall programme to manage Group-wide risk exposures and monitor that the aggregation of risk ceded to individual reinsurers is within appetite for credit risk.
- Longevity risk: Whilst individual Group companies are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and the capital implications to manage the impact on the Group-wide exposure and the capital funding that Group companies may require as a consequence. The Group has used reinsurance solutions to reduce the risks from longevity where possible and desirable.
- Persistency risk: Where possible the financial impact of lapses is reduced through appropriate product design. Group companies also implement specific initiatives to improve retention of policies which may otherwise lapse.
- Product design and pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss for and reputational damage to the Group. Guidelines have been developed to support the Group companies through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the Group companies through the assessment of profitability and frequent monitoring of expense levels.

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.

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

Concentration risk

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

	2013 Gross $	2013 Reinsurance $	2013 Net $	2012 Gross $	2012 Reinsurance $	2012 Net $
Bermuda	152,078	821	152,899	154,177	635	154,812
Bahamas	1,674	192	1,866	1,502	14	1,516
Barbados	5,075	82	5,157	6,128	(4)	6,124
Other Caribbean & Latin America	5,084	-	5,084	7,250	-	7,250
Other*	49,213	8,657	57,870	44,124	10,140	54,264
	213,124	**9,752**	**222,876**	**213,181**	**10,785**	**223,966**

* Other includes Europe, Asia, the Middle East and the Americas, but no one area is significant within the total.

Sensitivity test analysis

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 the Group's life and health insurance contract liabilities sensitivities to management's best estimate of the approximate impact as a result of changes in assumptions used to determine the Group's liability associated with these contracts.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. For life products where higher mortality would be financially adverse to the Group, a 1% increase in the best estimate assumption would increase the actuarial liabilities by $166 (2012 - $165). For annuity products where lower mortality would be financially adverse to the Group, a 1% decrease in the best estimate assumption would increase the actuarial liabilities by $231 (2012 - $245).

Morbidity

Morbidity refers to both the rates of accident or sickness and the rates of recovery therefrom. The Group's long term disability and medical expense insurance is marketed mostly on a group basis. The most significant morbidity risk relates to the individual and group health business. A 1% increase in medical claims net of reinsurance would increase the actuarial liabilities by $880 (2012 - $860).

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 the Canadian Asset Liability Method ("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 an immediate 1% decrease in the level of interest rates. These interest rate changes will impact the projected cash flows.

The effect of an immediate 1% increase in interest rates would be to decrease the present value of these net projected cash flows by approximately $2,601 (2012 - $143). The effect of an immediate 1% decrease in interest rates would be to increase the present value of these net projected cash flows by approximately $4,371 (2012 - $258).

The level of actuarial liabilities established under the CALM valuation provides for interest rate movements other than the 1% movements indicated above.

Expenses

Actuarial liabilities provide for future 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. Expense risk is the risk that future expenses are higher than assumed. 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. A 10% increase in the best estimate maintenance unit expense assumption would increase the actuarial liabilities by approximately $1,825 (2012 - $1,665).

Persistency

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. A 10% adverse change in the best estimate policy termination assumption would increase the actuarial liabilities by $1,223 (2012 - $1,269).

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. Changes in the best estimate assumptions for the participating business would, in the Group's expectation, correspond to changes in policyholder dividend scales that would not result in a material net change in actuarial liabilities for participating business.

ii) General insurance risk

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

Types of risk

General insurance risk in the Group arises from:

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

The majority of the general insurance business underwritten by the Group is of a short term nature such as property, motor and marine insurances. The Group's underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. Like the life insurance risk, general insurance risk is managed primarily at business unit level with oversight at a Group level.

Management of general insurance risks

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

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

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

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

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

Reinsurance strategy

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

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

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

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

Concentration risk

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

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

31 December 2013

Territory		**Property**	**Motor**	**All Other**	**Total**
		$	**$**	**$**	**$**
Bermuda					
	Gross	3,058	4,509	4,054	11,621
	Net	1,170	3,171	1,664	6,005
Cayman/Other Caribbean					
	Gross	2,097	2,039	1,275	5,411
	Net	1,152	881	377	2,410
Barbados					
	Gross	3,715	43,534	7,039	54,288
	Net	616	30,075	5,416	36,107
Total					
	Gross	**8,870**	**50,082**	**12,368**	**71,320**
	Net	**2,938**	**34,127**	**7,457**	**44,522**

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

31 December 2012

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	6,661	3,589	4,400	14,650
	Net	984	2,461	2,083	5,528
Cayman/Other Caribbean					
	Gross	4,434	1,122	974	6,530
	Net	1,238	779	90	2,107
Barbados					
	Gross	3,124	44,800	7,492	55,416
	Net	245	30,803	5,691	36,739
Total					
	Gross	**14,219**	**49,511**	**12,866**	**76,596**
	Net	**2,467**	**34,043**	**7,864**	**44,374**

General insurance business claims reserving

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

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

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

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

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

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

Claims development tables

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

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

Bermuda

Gross loss development:

Underwriting year Estimate of ultimate claims cost:	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
At the end of the valuation year*	6,494	10,067	8,413	9,760	17,992	7,024	6,738	-
One year later	6,483	9,680	8,409	9,825	18,403	7,222	-	-
Two years later	6,197	9,654	9,142	9,583	18,355	-	-	-
Three years later	6,156	9,924	9,158	9,812	-	-	-	-
Four years later	6,134	9,811	9,045	-	-	-	-	-
Five years later	6,118	9,669	-	-	-	-	-	-
Six years later	6,310	-	-	-	-	-	-	-
Current estimates of cumulative claims	6,310	9,669	9,045	9,812	18,355	7,222	6,738	67,151
Cumulative payments to date	(6,235)	(9,181)	(8,771)	(9,591)	(14,442)	(5,462)	(2,606)	(56,288)
Liability recognised in the consolidated statement of financial position	75	488	274	221	3,913	1,760	4,132	10,863
Reserve in respect of prior years								841
Total reserve included in the consolidated statement of financial position								**11,704**

Net loss development:

Underwriting year Estimate of ultimate claims cost:	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
At the end of the valuation year*	4,936	6,714	6,128	5,635	6,414	5,480	5,289	-
One year later	4,929	6,581	6,190	5,743	6,825	5,676	-	-
Two years later	4,758	6,376	6,789	5,478	6,763	-	-	-
Three years later	4,728	6,811	6,657	5,786	-	-	-	-
Four years later	4,703	6,651	6,615	-	-	-	-	-
Five years later	4,669	6,534	-	-	-	-	-	-
Six years later	4,819	-	-	-	-	-	-	-
Current estimates of cumulative claims	4,819	6,534	6,615	5,786	6,763	5,676	5,289	41,482
Cumulative payments to date	(4,762)	(6,501)	(6,348)	(5,582)	(5,939)	(4,336)	(2,158)	(35,626)
Net liability recognised in the consolidated statement of financial position	57	33	267	204	824	1,340	3,131	5,856
Reserve in respect of prior years								228
Total reserve included in the consolidated statement of financial position								**6,084**

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

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

Barbados and Cayman Islands

Gross loss development:

Accident year Estimate of ultimate claims cost:	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
At the end of accident year	56,651	44,908	23,353	26,877	34,614	30,172	26,596	-
One year later	58,264	42,667	22,666	24,934	32,075	27,160	-	-
Two years later	53,410	38,785	21,600	23,094	31,670	-	-	-
Three years later	49,979	38,169	20,930	22,243	-	-	-	-
Four years later	51,700	36,819	20,913	-	-	-	-	-
Five years later	50,359	36,739	-	-	-	-	-	-
Six years later	50,685	-	-	-	-			-
Current estimates of cumulative claims	50,685	36,739	20,913	22,243	31,670	27,160	26,596	216,006
Cumulative payments to date	(33,581)	(34,637)	(16,350)	(18,145)	(25,060)	(18,886)	(11,821)	(158,480)
Liability recognised in the consolidated statement of financial position	17,104	2,102	4,563	4,098	6,610	8,274	14,775	57,526
Reserve in respect of prior years								2,090
Total reserve included in the consolidated statement of financial position								**59,616**

Net loss development:

Accident year Estimate of ultimate claims cost:	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
At the end of accident year	33,548	17,487	15,384	16,005	15,895	16,057	17,393	-
One year later	32,899	17,299	14,451	14,375	15,052	15,093	-	-
Two years later	29,316	14,409	13,357	13,522	15,619	-	-	-
Three years later	28,786	13,305	12,550	13,419	-	-	-	-
Four years later	29,292	12,582	12,497	-	-	-	-	-
Five years later	29,087	12,219	-	-	-	-	-	-
Six years later	28,878	-	-	-	-	-	-	-
Current estimates of cumulative claims	28,878	12,219	12,497	13,419	15,619	15,093	17,393	115,118
Cumulative payments to date	(24,489)	(10,626)	(10,088)	(10,292)	(10,946)	(9,491)	(7,892)	(83,824)
Net liability recognised in the consolidated statement of financial position	4,389	1,593	2,409	3,127	4,673	5,602	9,501	31,294
Net reserve in respect of prior years								7,144
Total net reserve included in the consolidated statement of financial position								**38,438**

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

Total reserves included in the consolidated statement of financial position:

	Total $
Gross	
Bermuda	11,704
Barbados and Cayman Islands	59,616
Total *	**71,320**

Net	
Bermuda	6,084
Barbados and Cayman Islands	38,438
Total *	**44,522**

*Does not include unearned premium or claims payable.

C. CAPITAL MANAGEMENT AND REGULATORY COMPLIANCE

The Group's policy is to maintain a strong consolidated capital base. The Group manages its capital to ensure its continued ability to provide an adequate return to shareholders, exceed insurance capital regulatory 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 consists of share capital, contributed surplus, share premium, accumulated other comprehensive loss, and retained earnings as disclosed in the consolidated statement of financial position.

Management monitors the adequacy of the Group and its operating subsidiaries' capital from the perspective of the Bermuda, Cayman and Barbados Insurance Acts and Companies Acts. The Group's practice is to maintain the capitalisation of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate. In addition, while not a regulatory requirement, BF&M Life and Bermuda International follow the capital adequacy measurement established by the Office of the Superintendent of Financial Institutions in Canada known as the Minimum Continuing Capital and Surplus Requirements ("MCCSR"). The Group's investment policies emphasize the preservation of capital and the maintenance of a diversified investment portfolio, which together serve to minimize the risk that investment activities pose to the Group's capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

i) Bermuda

Under The Insurance Act 1978 (Bermuda), Amendments Thereto and Related Regulations (the "1978 Act"), the Group's Bermuda-based insurance subsidiaries are required to annually prepare and file statutory financial statements and a statutory financial return. The 1978 Act also requires the Group's insurance subsidiaries to meet minimum liquidity ratios and minimum capital and surplus requirements.

The 1978 Act limits the maximum amount of annual dividends and distributions that may be paid by the Group's insurance subsidiaries. Before reducing by 15% or more its total statutory capital, as set out in the prior year's financial statements, these insurance companies shall request the approval of the Bermuda Monetary Authority ("BMA"). In addition, The Bermuda Companies Act 1981 (the "Companies Act") 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.

Subsidiaries holding a general insurance company license

Subsidiaries that hold a general insurance company license are required to monitor their capital adequacy using The Bermuda Solvency Capital Requirement – Small and Medium-sized Entities ("BSCR-SME") starting in 2011. In addition, the 1978 Act and Bermuda Companies Act 1981, restricts a Company from declaring a dividend or making a distribution from contributed surplus unless the following criteria are met after declaration or distribution: i) the Company has complied with its solvency and liquidity requirements and ii) for distribution made out of contributed surplus there are reasonable grounds for believing that the Company will be able to pay its liabilities when they become due and that the realisable value of the Company assets will be greater than the sum of the liabilities. For all periods presented herein, the Group satisfied these requirements.

Subsidiaries holding a long term insurance company license

The applicable minimum margin of solvency for the financial year ending in 2013 shall be 75% of the greater of (a) $4,000 or b) 2% of the first $250,000 of assets plus 1.5% of assets above $250,000. In addition, the 1978 Act and Bermuda Companies Act 1981, restricts a Company from declaring a dividend or make a distribution from contributed surplus unless the following criteria are met after declaration or distribution: i) the Company may not declare or pay a dividend to any person other than a policyholder unless the value of the assets of its long-term business funds exceeds the value of its liabilities of its long-term business and the amount of any such dividend shall not exceed the aggregate of that excess and any other funds properly available for the payment of dividend arising out of the Company's non-long-term business and ii) for distribution made out of contributed surplus there are reasonable grounds for believing that the Company will be able to pay its liabilities when they become due and that the realisable value of the Company assets will be greater than the sum of the liabilities. For all periods presented herein, the Group's long term insurance subsidiaries satisfied these requirements.

ii) Barbados

The Barbados Insurance (Catastrophe Reserve Fund) Regulations 2003-88 require the establishment of a catastrophe reserve fund. Annual amounts of up to 25% of net premium income from property insurance business are allocated to the fund. Assets representing the fund in the amount of $4,964 (2012 - $4,386) are placed in trust in accordance with the regulations of the Barbados Insurance Act.

Section 152 of the Barbados Insurance Act requires the appropriation towards a surplus reserve of at least 25% of net income until such time as the surplus reserve of the ICBL equals or exceeds the liability in respect of unearned premiums. A surplus reserve of $17,440 as at 2013 (2012 - $16,839) is included in ICBL's shareholders' equity in accordance with the requirements.

iii) Cayman Islands

The Cayman Islands Monetary Authority ("CIMA") has statutory powers that enable it to use its discretion to require the Group to conduct its Cayman operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and the Group. A new Cayman Islands Insurance Law (the "new law") became effective November 2012. Under this new law, the Group is required to maintain capital in excess of the greater of approximately $300 for domestic insurers or $1,000 for external insurers, and an amount determined as per a prescribed formula set out in legislation. The formula prescribes the minimum capital requirements for the Group's assets and liabilities based on the relative riskiness of the balances and also provides for a margin of catastrophe. The Group holds both a domestic insurer license and an external insurer Class A license. At 31 December 2013 and 2012, the Group was in compliance with its regulatory requirements as an external insurer. During the year ended 31 December 2013, some of the jurisdictions in which the Group is licensed to operate in required additional funding to meet the minimum solvency requirements set by the respective regulators. Management have committed to fund the additional solvency requirements within periods acceptable to the respective regulators

D. SELF-INSURANCE

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

5. SEGMENTAL INFORMATION

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

5.1. Health, life, annuity and pension (Bermuda)

This operating segment includes group and individual health and accident, life, disability, annuity and pension products.

5.2. Property and casualty (Bermuda)

This operating segment includes the following products: personal and commercial fire, windstorm, burglary, public liability, marine, special types, personal automobile, personal auto-cycle, workmen's compensation and commercial vehicles.

5.3 Real estate (Bermuda)

This operating segment includes the Group's real estate operations in Bermuda. The Group currently owns and occupies one building and is a majority owner in two buildings that are leased principally to non-related parties.

5.4 Barbados operations

This operating segment is identified by its geographical location. Insurance coverage includes motor, property, marine, miscellaneous accident, group health, group life, and pension business.

5.5 Cayman Islands and other Caribbean operations

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

5.6 Corporate and other

Corporate operations consist of corporate level income and expenses and returns from investments not allocated to any operating segments. It also represents the combined operations of two holding companies, a management company, a financial reinsurance company, and an investment management company. The Group manages shared services centrally with most costs allocated based on either head count, expenses or revenues. Some central costs are not allocated and remain within the corporate group.

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. The Group evaluates performance of operating segments on the basis of profit or loss from operations before tax.

Intersegment income is recorded at management's estimate of current market prices.

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

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2013 is as follows:

Segments	Health, life, annuity, and pension 2013 $	Property and casualty 2013 $	Real estate 2013 $	Barbados operations 2013 $	Cayman and other Caribbean operations 2013 $	Corporate and other 2013 $	Total 2013 $
Income earned from external customers	129,166	29,555	3,031	40,805	48,529	-	251,086
Investment income	(14,963)	480	-	4,417	817	1	(9,248)
Total income	114,203	30,035	3,031	45,222	49,346	1	241,838
Insurance contracts benefits and expenses	77,936	6,927	-	17,109	3,987	-	105,959
Commission and acquisition expense	5,262	3,727	-	3,729	22,473	-	35,191
Operating expense	22,872	11,886	567	15,902	10,216	1,617	63,060
Amortisation expense	1,842	1,344	875	1,503	457	2,229	8,250
Interest on loans	-	-	127	-	-	567	694
Income tax expense	-	-	-	1,143	2,431	122	3,696
Shareholders' net income	7,122	7,274	1,421	2,705	10,480	(3,851)	25,151
Impairment losses recognised in income	4,591	219	-	1,505	-	-	6,315
Assets	1,195,856	71,269	27,419	199,036	122,491	37,107	1,653,178
Fixed asset & intangible expenditures	2,144	2,210	11	1,172	9,182	1,304	16,023
Liabilities	1,096,636	52,808	3,908	138,373	69,984	19,736	1,381,445

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

The segmental information provided to the CEO for the reportable segments for the year ended 31 December 2012 is as follows:

Segments	Health, life, annuity, and pension 2012 $	Property and casualty 2012 $	Real estate 2012 $	Barbados operations 2012 $	Cayman and other Caribbean operations 2012 $	Corporate and other 2012 $	Total 2012 $
Income earned from external customers	127,702	31,601	3,030	37,206	30,617	239	230,395
Investment income	10,517	1,122	-	4,961	635	1	17,236
Total income	138,219	32,723	3,030	42,167	31,252	240	247,631
Insurance contracts benefits and expenses	99,484	6,276	-	15,693	2,319	-	123,772
Commission and acquisition expense	4,437	3,592	-	3,258	17,598	-	28,885
Operating expense	22,632	11,979	774	13,197	7,053	1,766	57,401
Amortisation expense	1,744	1,144	843	1,445	304	1,591	7,071
Interest on loans	-	-	156	-	-	577	733
Income tax expense	-	-	-	(601)	(738)	154	(1,185)
Shareholders' net income	5,975	10,519	1,514	3,583	4,068	(3,774)	21,885
Impairment losses recognised in income	5,012	-	-	281	-	-	5,293
Impairment losses recognised in other comprehensive income	-	-	-	180	-	-	180
Assets	1,062,996	68,939	26,859	200,127	129,346	38,581	1,526,848
Fixed asset & intangible expenditures	1,132	1,548	22	775	1,502	25,553	30,532
Liabilities	974,198	57,727	4,164	136,691	80,636	25,505	1,278,921

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

6. CASH AND CASH EQUIVALENTS

	2013 $	2012 $
Cash at bank and in hand	60,319	64,735
Short-term bank deposits	13,713	9,251
Total	**74,032**	**73,986**

7. REGULATORY AND FIXED DEPOSITS

	2013 $	2012 $
Regulatory deposits	19,399	11,884
Fixed deposit	2,015	2,000
Total	**21,414**	**13,884**

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

The fixed deposit has a term of 182 days with an independent financial institution in the Bahamas. The fixed deposit matures on May 5, 2014, and earns interest of 0.35% per annum.

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

8. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2013		2012	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
At fair value through profit and loss				
- Bonds and fixed income securities*	450,543	450,543	447,336	447,336
- Equities*	40,321	40,321	23,910	23,910
- Derivatives*	823	823	883	883
Held-to-maturity				
- Bonds and fixed income securities	7,493	7,610	-	-
Loans and receivables				
- Other loans	3,487	3,487	3,487	3,487
- Policyholder loans	4,342	4,342	4,344	4,344
- Mortgages	92,942	93,785	90,286	90,194
- Bonds and fixed income securities	104,844	113,664	112,762	116,713
	704,795	**714,575**	**683,008**	**686,867**
Available for sale				
- Equities	4,590	4,590	4,613	4,613
- Residential properties	488	488	488	488
	5,078	**5,078**	**5,101**	**5,101**
Totals	**709,873**	**719,653**	**688,109**	**691,968**

*Included within certain investments are assets that back private placement insurance contracts. They are segregated and managed to meet the specific investment objectives of the policyholder. Liabilities relating to these contracts are included within insurance contract liabilities. The investment risk of these assets is borne by the customer. These assets comprise:

	2013		2012	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Bonds and fixed income securities	8,252	8,252	7,142	7,142
Equity / Mutual funds/Derivatives	19,580	19,580	17,687	17,687
	27,832	**27,832**	**24,829**	**24,829**

Included in the investments balance of $709,873 (2012 - $688,109) is $37,348 (2012 - $40,931) which has been pledged to meet the requirements of Section 25(5) of the Barbados Insurance Act 1996-32, $999 (2012 - $999) of financial assets which are being held by the Supervisor of Insurance of Barbados as required under Section 23(2)(b) of the Barbados Insurance Act and $nil (2012 - $1,118) of financial assets which are restricted by the Puerto Rico Commissioner of Insurance.

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

B. INVESTMENT (LOSS) INCOME

	2013 $	2012 $
Interest income		
Bonds and fixed income securities - at FVTPL	10,389	10,488
Bonds and fixed income securities - at amortised cost	7,197	6,963
Mortgages and loans	5,700	5,466
Bank deposits and policyholder loans	634	689
	23,920	23,606
Dividend income		
Equities- at FVTPL	451	311
Equities - at available for sale	82	160
	533	471
Net realised gains/(losses) on sale of investments		
Equities- at FVTPL	462	-
Bonds and fixed income securities- at FVTPL	(1,320)	-
Equities – available for sale	(313)	1,085
	(1,171)	1,085
Change in fair value arising from		
Bonds and fixed income securities	(21,945)	4,835
Equities	327	290
	(21,618)	5,125
Impairments and deductions		
Less: Impairment provision on mortgages and loans	(4,373)	(5,012)
Less: Impairment loss on available for sale assets	-	(281)
Less: Allocation to contracts for the account and risk of customers	(6,539)	(7,758)
	(10,912)	(13,051)
Total	**(9,248)**	**17,236**

9. FAIR VALUE MEASUREMENTS

Fair value is defined as 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.

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. Broker quotes are typically used when external public vendor prices are not available. Judgment is applied in adjusting external observable data for items including liquidity and credit factors.

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

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

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

i) Financial instruments in level 1

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

ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

iii) Financial instruments in 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.

The following table presents the fair value of 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 2013:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at fair value through profit and loss				
Bonds and fixed income securities	166,865	283,678	-	450,543
Equities	40,321	-	-	40,321
Derivatives	823	-	-	823
Available for sale financial assets				
Equities	3,814	776	-	4,590
Residential properties	-	-	488	488
Segregated fund assets	418,347	168,444	-	586,791
Total assets	**630,170**	**452,898**	**488**	**1,083,556**
Liabilities				
Investment contract liabilities	-	280,066	-	280,066
Segregated fund liabilities	-	586,791	-	586,791
Total liabilities	**-**	**866,857**	**-**	**866,857**

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

The following table presents the fair value of 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 2012:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at fair value through profit and loss				
Bonds and fixed income securities	169,270	278,066	-	447,336
Equities	23,910	-	-	23,910
Derivatives	883	-	-	883
Available for sale financial assets				
Equities	3,859	754	-	4,613
Residential properties	-	-	488	488
Segregated fund assets	306,192	172,719	-	478,911
Total assets	**504,114**	**451,539**	**488**	**956,141**
Liabilities				
Investment contract liabilities	-	267,588	-	267,588
Segregated fund liabilities	-	478,911	-	478,911
Total liabilities	**-**	**746,499**	**-**	**746,499**

During the year there were no transfers between Levels 1 and 2.

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

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 2013:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Bonds and fixed income securities	995	6,615	-	7,610
Loans and receivable financial assets				
Bonds and fixed income securities	-	-	113,664	113,664
Mortgages	-	-	93,785	93,785
Policyholder loans	-	-	4,342	4,342
Other loans	-	-	3,487	3,487
Investment properties	-	-	72,863	72,863
Total assets	**995**	**6,615**	**288,141**	**295,751**
Liabilities				
Loans payable	-	18,300	-	18,300
Total liabilities	**-**	**18,300**	**-**	**18,300**

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 2012:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Loans and receivable financial assets				
Bonds and fixed income securities	-	-	116,713	116,713
Mortgages	-	-	90,194	90,194
Policyholder loans	-	-	4,344	4,344
Other loans	-	-	3,487	3,487
Investment properties	-	-	74,126	74,126
Total assets	**-**	**-**	**288,864**	**288,864**
Liabilities				
Loans payable	-	26,424	-	26,424
Total liabilities	**-**	**26,424**	**-**	**26,424**

Bonds and fixed income securities – The fair values for bonds and fixed income securities are based on the present value of discounted cash flows.

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

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 because they are collateralized by the value of the policies.

Investment properties – Fair value is calculated in accordance with the methodologies described for investment property in note 2.

Loans payable – Estimated fair value is based upon contractual cash flows, using market rates currently offered for loans with similar terms and conditions.

10. INSURANCE RECEIVABLES AND OTHER ASSETS

	2013 $	2012 $
Insurance receivables	29,900	48,190
Accounts receivable	42,208	29,690
Accrued investment income	7,615	5,424
Total	**79,723**	**83,304**

11. DEFERRED POLICY ACQUISITION COSTS

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

	2013 $	2012 $
At 1 January	10,155	2,110
Value of business acquired	-	7,949
Recognised deferred acquisition costs	26,866	21,719
Amortisation charge through income	(27,085)	(21,623)
At 31 December	**9,936**	**10,155**

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

12. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2013 $	2012 $
Short-term insurance contracts:		
Claims reported and adjustment expenses	21,231	26,529
Unearned premiums ceded	44,386	51,980
Claims incurred but not reported	5,568	5,693
Total short-term insurance contracts	**71,185**	**84,202**
Life and health insurance contracts:		
Participating		
Individual life	(1,097)	(1,075)
Non-participating		
Individual life	(14,683)	(11,477)
Individual and group annuities		-
Group life	2,492	1,724
Health and accident	3,536	43
Total life and health insurance contracts	**(9,752)**	**(10,785)**
Total reinsurance assets	**61,433**	**73,417**

13. INVESTMENT PROPERTIES

	2013 $	2012 $
Cost	54,464	54,495
Accumulated depreciation	(15,843)	(13,901)
Net book amount	**38,621**	**40,594**
Year ended 31 December		
At beginning of year	40,594	41,283
Net additions and capital improvements	141	240
Impairment	(1,191)	-
Depreciation	(923)	(929)
Closing net book amount	**38,621**	**40,594**

Investment properties consist of the Aon House (formerly ACE Tempest Re Building), owned by Scarborough, a 60% owned subsidiary, and Argo House (formerly PXRE House), owned by Barr's Bay, a 60% owned subsidiary. The minority shareholder of Barr's Bay holds an equitable mortgage as security for its loan to Barr's Bay. As security for the term loan agreement entered into in connection with the acquisition of IHHL, the Group has entered into a Deed of Assignment over BF&M Properties' 60% ownership interest in Scarborough. Additional investment properties located in Barbados include land being used for car parking facilities and two buildings being used for rental. One of the Barbados properties has been placed in trust with respect to the statutory funds and if this was to be sold the value of the asset would need to be replaced within the statutory fund.

At 31 December 2013, investment properties with a net book value of $38,621 (2012 - $40,594) were estimated to be valued at $72,863 (2012 - $74,126) on the basis of their estimated open market value for existing use. This value is based on the most recent formal appraisal which was performed in 2010 for Bermuda and 2013 for the Barbados based properties. During the year ended 31 December 2013 certain investment properties held by the Group's carrying values exceeded its market value, which resulted in an impairment charge of $1,191 for the year ended 31 December 2013.

Rental income generated from these investment properties during the year amounted to $4,286 (2012: $4,108). Operating expenses incurred in support of generating rental income from investment properties was $1,526 (2012 - $1,839).

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

14. PROPERTY AND EQUIPMENT

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor Vehicles $	Total $
At 1 January 2012					
Cost	13,348	7,626	7,033	-	28,007
Accumulated depreciation	(2,326)	(6,236)	(5,885)	-	(14,447)
Net book amount	**11,022**	**1,390**	**1,148**	**-**	**13,560**
Year ended 31 December 2012					
Acquired fixed assets	-	1,087	154	51	1,292
Additions	22	512	418	12	964
Disposals	-	(365)	(104)	-	(469)
Disposals – accumulated depreciation	-	367	104	-	471
Depreciation charge	(235)	(768)	(495)	(22)	(1,520)
Closing net book amount	**10,809**	**2,223**	**1,225**	**41**	**14,298**
At 31 December 2012					
Cost	13,370	8,860	7,501	63	29,794
Accumulated depreciation	(2,561)	(6,637)	(6,276)	(22)	(15,496)
Net book amount	**10,809**	**2,223**	**1,225**	**41**	**14,298**
Year ended 31 December 2013					
Additions	9,103	1,181	1,174	53	11,511
Disposals		(289)	(200)	(35)	(524)
Disposals – accumulated depreciation	-	201	138	35	374
Depreciation charge	(339)	(902)	(693)	(15)	(1,949)
Closing net book amount	**19,573**	**2,414**	**1,644**	**79**	**23,710**
At 31 December 2013					
Cost	22,473	9,752	8,475	81	40,781
Accumulated depreciation	(2,900)	(7,338)	(6,831)	(2)	(17,071)
Net book amount	**19,573**	**2,414**	**1,644**	**79**	**23,710**

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

As security for the term loan agreement entered into in connection with the acquisition of IHHL, the Lender holds a first mortgage over the land and buildings held within BF&M Properties Limited, the carrying value of these buildings amount to $3,748 at year-end.

15. INCOME TAXES

Income tax is calculated and payable on the profits of ICBL, BF&M Canada and IHHL which operate in jurisdictions with corporate tax requirements. The rest of the Group operates in non-corporate tax jurisdictions.

A. INCOME TAX

The income tax expense comprises:

	2013 $	2012 (revised) $
Current tax	2,395	1,497
Deferred tax	1,301	(312)
Total income tax expense	**3,696**	**1,185**

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

	2013 $	2012 (revised) $
ICBL, BF&M Canada and IHHL's income before corporation tax	23,007	10,581
Tax calculated at effective rates of 25%*, 35% and 37.4% respectively	8,906	1,498
Prior year adjustments	467	(179)
Effect of different tax rates on taxable income	(502)	(465)
Income not subject to tax	(4,903)	(327)
Tax effect of other amounts allowed	(108)	(145)
Expenses not deductible for tax	416	218
Tax (over)/under accrual	(580)	585
Tota Income tax expense	**3,696**	**1,185**

*ICBL's life business is subject to tax at a rate of 5% of gross investment income. All other investment income of ICBL is subject to tax at a rate of 12.5%.

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

B. DEFERRED TAXES

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

	2013 $	2012 (revised) $
Deferred tax assets:		
Taxable losses carried forward	49	672
Net unearned premium	403	173
Deferred ceding commissions	249	913
Outstanding claims	16	14
Tax (credit) / charge to components of other comprehensive income	(71)	134
Gross deferred tax asset	**646**	**1,906**
Deferred tax liabilities:		
Accelerated tax depreciation	(201)	(132)
Net pension plan asset	(552)	(482)
Deferred acquisition cost	(773)	(798)
Deferred tax liability	**(1,526)**	**(1,412)**
Net deferred tax (liability) asset	**(880)**	**494**

C. TAX RECOVERABLE

	2013 $	2012 (revised) $
Tax recoverable at beginning of year	1,901	1,687
Acquired tax recoverable	-	343
Tax payments made	1,170	1,368
Current tax expense for year	(2,395)	(1,497)
Tax recoverable at end of year	**676**	**1,901**

The tax (charge) credit relating to components of other comprehensive income is as follows:

	2013		
	Before tax $	Tax (charge) / credit $	After tax $
Re-measurements of post-employment benefit obligations	4,702	(71)	4,631
Investments classified as available for sale			
Fair value losses	290	-	290
Currency translation differences	(56)	-	(56)
Other comprehensive income	**4,936**	**(71)**	**4,865**

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

	2012		
	Before tax $	Tax (charge) / credit $	After tax $
Re-measurements of post-employment benefit obligations	(2,659)	134	(2,525)
Investments classified as available for sale			
Fair value losses	(613)	-	(613)
Impairment losses previously revalued through other comprehensive income transferred to net income	(180)	-	(180)
Currency translation differences	21	-	21
Other comprehensive income	**(3,431)**	**134**	**(3,297)**

16. INTANGIBLE ASSETS

The carrying amounts of intangible assets are as follows:

	Finite life				Indefinite life		
	Customer relationships & contracts $	Distribution channels $	IHHL brand $	Software development costs $	ICBL brand $	Goodwill $	Total $
At 1 January 2012							
Cost	11,194	-	-	22,088	697	2,628	36,607
Accumulated amortisation and impairment losses	(7,868)	-	-	(4,201)	-	-	(12,069)
Net book value	3,326	-	-	17,887	697	2,628	24,538
Year ended 31 December 2012							
Opening net book value	3,326	-	-	17,887	697	2,628	24,538
Acquired intangibles & goodwill	1,300	14,500	2,000	70	-	7,700	25,570
Additions	-	-	-	2,308	-	-	2,308
Amortisation	(1,111)	(1,087)	(300)	(2,123)	-	-	(4,621)
Closing net book value	3,515	13,413	1,700	18,142	697	10,328	47,795
At 31 December 2012							
Cost	12,494	14,500	2,000	24,466	697	10,328	64,485
Accumulated amortisation and impairment losses	(8,979)	(1,087)	(300)	(6,324)	-	-	(16,690)
Net book value	**3,515**	**13,413**	**1,700**	**18,142**	**697**	**10,328**	**47,795**
Year ended 31 December 2013							
Opening net book value	3,515	13,413	1,700	18,142	697	10,328	47,795
Additions	-	-	-	4,512	-	-	4,512
Amortisation	(1,049)	(1,450)	(400)	(1,996)	-	-	(4,895)
Impairment losses	-	-	-	(443)	-	-	(443)
Closing net book value	**2,466**	**11,963**	**1,300**	**20,215**	**697**	**10,328**	**46,969**
At 31 December 2013							
Cost	12,494	14,500	2,000	28,540	697	10,328	68,559
Accumulated amortisation and impairment losses	(10,028)	(2,537)	(700)	(8,325)	-	-	(21,590)
Net book value	**2,466**	**11,963**	**1,300**	**20,215**	**697**	**10,328**	**46,969**
Remaining amortisation period in years	1.8 years	8.3 years	3.3 years	7.1 years	n/a	n/a	

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

The amortisation charge on finite life intangibles assets is included in depreciation and amortisation in the consolidated statement of income.

Customer lists

During 2004, the Group purchased rights to certain customer lists in the health, life, annuity and pension business. During 2007, the Group purchased rights to another customer list in the amount of $1,215.

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 for evidence of impairment.

ICBL intangibles

In 2005, the Group acquired intangible assets arising from the ICBL acquisition including the ICBL brand and customer relationships totalling $5,783. Of the total intangible assets acquired, $5,086 was identified as the value of intangible assets that have finite lives and are amortised over 10 years, being the estimated expected lives of the existing relationships. The remaining balance of $697 relates to the ICBL brand and was determined to have an indefinite life.

IHHL intangibles

In 2012, the Group acquired intangible assets arising from the IHHL acquisition including the IHHL brand, customer lists, agent relationships, and software development costs totalling $17,870. All intangibles were identified as having finite lives and are amortised over either 5 years (brand) or 10 years (customer lists, agent relationships, and software development costs).

Goodwill

Goodwill represents the excess of the cost of ICBL and IHHL at acquisition over the fair value of the net assets acquired. The entire balance of goodwill is therefore fully allocated to the Barbados and Cayman operations which are identified as separate operating segments. When testing for impairment, the recoverable amount of ICBL and IHHL is determined based on the higher of its fair value less costs to sell or value in use. Impairment of these intangibles is assessed on an annual basis. The following is a summary of the goodwill allocated for each of the cash generating units:

	Opening 2013 $	Additions $	Disposal $	Impairment $	Closing 2013 $
ICBL	2,628	-	-	-	2,628
IHHL	7,700	-	-	-	7,700
Total	**10,328**	**-**	**-**	**-**	**10,328**

	Opening 2012 $	Additions $	Disposal $	Impairment $	Closing 2012 $
ICBL	2,628	-	-	-	2,628
IHHL	-	7,700	-	-	7,700
Total	**2,628**	**7,700**	**-**	**-**	**10,328**

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

17. SEGREGATED FUNDS

i) Segregated funds – consolidated net assets

	2013 $	2012 $
Mutual funds	586,791	478,911
Total segregated funds assets	**586,791**	**478,911**

ii) Segregated funds – consolidated statements of changes in net assets

	2013 $	2012 $
Segregated funds' assets – beginning of year	478,911	424,886
Additions:		
Pension contributions	81,267	69,128
Life insurance	17	17
Net realised and unrealised gains	87,543	50,596
Other investment income	-	6
Total additions	168,827	119,747
Deductions		
Payments to policyholders and their beneficiaries	(54,991)	(60,250)
Management fees	(5,956)	(5,143)
Losses paid	-	(262)
Underwriting expenses	-	(67)
Total deductions	(60,947)	(65,722)
Net additions to segregated funds	107,880	54,025
Segregated funds assets – end of year	**586,791**	**478,911**

18. OTHER LIABILITIES

These include:	2013 $	2012 (revised) $
Payables and accrued expenses	37,570	27,849
Insurance balances payable	14,032	18,612
Deferred commission income	9,457	14,559
Policyholder dividends payable	5,532	5,593
Dividends payable	600	1,695
Total	**67,191**	**68,308**

Insurance balances payable include amounts payable to reinsurers and brokers.

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

19. LOANS PAYABLE

Loans payable consist of:

	2013 $	2012 $
Loan payable	2,391	3,071
Bank borrowing	15,750	22,750
Total	**18,141**	**25,821**

Estimated principal repayments on the loans payable balance of $18,141 (2012 - $25,821) for the next five years are as follows:

	$
2014	7,601
2015	7,670
2016	2,352
2017	518
2018	-
	18,141

	2013 $	2012 $
Current liability portion (payable within 12 months)	7,601	7,680
Long-term liability portion	10,540	18,141
Total	**18,141**	**25,821**

The carrying amounts for the current liability portion of the loans disclosed above reasonably approximate fair value at the reporting date.

A. LOAN PAYABLE

In prior years, the Group borrowed $6,934 from an affiliated Company of the minority shareholder of Barr's Bay, against the $7,000 in promissory notes available to finance the construction of Argo House.

Interest on the variable rate loan is adjusted quarterly at the lower of 7% or 2% less than the average of the prevailing per annum First Mortgage rates of banks in Bermuda. Interest accrues on the date of each drawdown and is payable on the last day of each calendar quarter commencing one year after completion of the building but only to the extent that Barr's Bay has cash surplus to its needs arising from income in excess of all operating expenses (including payments of interest). Accrued interest on the loan at 31 December 2013 was $nil (2012 - $36). Repayment of accrued interest is made separately, and began in the year 2006. Repayment of loan principal commenced in the year 2005 and it is anticipated that the loan will be fully repaid by 30 June 2017 (contract maturity – 1 January 2026). During the year $649 (2012 - $645) of the principal balance was repaid.

The carrying value of the Barr's Bay loan with a minority shareholder does not approximate its fair value as it pays an interest rate of 2% below the average of the prevailing First Mortgage rates of banks in Bermuda. To estimate fair value, the expected cash flows of the loan have been discounted using a market interest rate. The fair value of the loan at 31 December 2013 is $2,814 (2012 - $2,995).

B. BANK BORROWING

On 30 March 2012, the Group entered into a term loan agreement in connection with the acquisition of IHHL. Full details on the acquisition are provided in Note 30. Under the terms of the agreement, the Group borrowed $28,000 (Twenty eight million dollars) to be repaid in 16 equal quarterly installments of $1,750 payable on 30 June, 30 September, 31 December and 31 March of each year commencing on 30 June 2012. Interest on the loan is at 2.5% above LIBOR and is payable on the last day of each calendar quarter commencing on 30 June 2012. During 2013 $7,000 (2012 - $5,250) of the principal balance was repaid. Deferred transaction costs incurred on the bank borrowings amounted to $360 at the end of 2013 with $160 expensed in the consolidated statement of income in 2013. The borrowings are secured by the land and buildings of the Group (note 14).

20. RETIREMENT BENEFIT OBLIGATIONS

A. DEFINED CONTRIBUTION PENSION PLAN

The Group sponsors a defined contribution pension plan for Bermuda employees who were hired after 1 January 1999 and for those who elected to convert from the defined benefit plan as of 1 January 1999. The cost of the defined contribution pension plan is not reflected in the tables below. Contributions of $1,246 (2012 - $1,183) equating to the service cost for the year for these employees were made to this plan. The employer portion was $619 (2012 - $588).

In 2007, ICBL introduced a defined contribution plan for new employees. Contributions of $69 (2012 - $109) equating to the service cost for the year for these employees were made to this plan.

IHHL participates in a defined contribution pension scheme as required under Cayman Island law. During 2013 IHHL contributed $168 (2012 - $137).

B. POST RETIREMENT MEDICAL PLAN AND IMPACT OF CURTAILMENT

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

The Group also offers medical insurance benefits to retired employees in Barbados. Sixty percent (60%) of the premium is funded by ICBL. The present value of this future benefit obligation is calculated by a qualified actuary and the amount is accrued at the end of each year. Prior to 1 January 2014, ICBL paid to the insurer 60% of the total premiums and the pensioner paid the balance. Retirees after 31 December 2013 will 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 and was treated as a curtailment. The resulting change of $1,051 is reported as a gain and include in pension retirement cost.

Cash contributions to the plan by the Group during 2013 were $307 (2012 - $301).

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

C. DEFINED BENEFIT PENSION PLAN

The Group sponsors a defined benefit pension plan for eligible employees in Bermuda and Barbados under broadly similar regulatory frameworks. The defined benefit plan is administered by a separate Fund that is legally separated from the company. Responsibility for governance of the plans including investment and contributions lies jointly with the company and the Board 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 2013 were $3,446 (2012 - $3,692).

The Group measures the fair value of assets and the accrued benefit obligations as of 31 December. The most recent actuarial valuation of the plan's assets and the present value of the defined benefit obligation were carried out as of 31 December 2013.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2013 and 2012:

	Defined benefit pension plans		Medical benefit plans	
	2013 $	2012 (revised) $	2013 $	2012 (revised) $
Accrued benefit obligation				
Balance - beginning of year	50,874	46,732	6,520	6,276
Current service cost	992	916	78	65
Interest expense	2,408	2,454	258	265
Past service cost and gains and losses on settlements	-	-	(1,051)	-
	3,400	**3,370**	**(715)**	**330**
Re-measurement (gains) losses				
Actuarial gains and losses arising from changes in financial assumptions	(4,694)	3,166	(881)	215
Changes in asset ceiling, excluding amounts included in interest expense	294	-	-	-
	(4,400)	**3,166**	**(881)**	**215**
Contributions:				
Employer	-	-	-	-
Plan participants	-	-	-	-
Payments from plans:				
Benefit payments	(2,249)	(2,394)	(307)	(301)
Settlements	-	-	-	-
Balance - End of year	**47,625**	**50,874**	**4,617**	**6,520**

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

	Defined benefit pension plans		Medical benefit plans	
	2013 $	2012 (revised) $	2013 $	2012 (revised) $
Plan assets				
Fair value - beginning of year	47,075	42,717	-	-
Interest income	1,079	2,402	-	-
Re-measurement				
Return on plan assets, excluding amounts included in interest income	722	712	-	-
	722	**712**	**-**	**-**
Contributions:				
Employers	3,446	3,692	307	301
Plan participants	-	-	-	-
Payments from plans	(61)	(54)	-	-
Benefit payments	(2,249)	(2,394)	(307)	(301)
Settlements	-	-	-	-
Fair value - end of year	**50,012**	**47,075**	**-**	**-**
Accrued (benefit) liability	**(2,387)**	**3,799**	**4,617**	**6,520**

Amounts recognised in respect of these defined benefit plans are as follows:

The Group's net benefit plan expense is as follows:

	Defined benefit pension plans		Medical benefit plans	
	2013 $	2012 (revised) $	2013 $	2012 (revised) $
Current service cost	992	916	78	64
Interest expense / (income)	88	116	257	265
Past services cost and gains and losses	-	-	(1,051)	-
Components of defined benefit costs recorded in profit or loss	**1,080**	**1,032**	**(716)**	**329**
Re-measurement on the net defined benefit liability				
Return on plan assets (excluding amounts included in interest income)	435	(848)	-	-
Actuarial gains and losses arising from changes in financial assumptions	(4,480)	3,158	(881)	215
Adjustments for restrictions on the defined benefit asset	295	-	-	-
Components of defined benefits cost recorded in OCI	**(3,750)**	**2,310**	**(881)**	**215**

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

The past service cost, the service cost and the net-interest expense for the year is included in the employee benefits expense 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.

The defined benefit obligation and plan assets comprised by country is as follows:

At 31 December 2013	Bermuda $	Barbados $	Total $
Present value of obligation	36,706	15,536	52,242
Fair value of plan assets	(32,328)	(17,684)	(50,012)
Total	**4,378**	**(2,148)**	**2,230**

At 31 December 2012 (revised)	Bermuda $	Barbados $	Total $
Present value of obligation	40,875	16,516	57,391
Fair value of plan assets	(30,500)	(16,572)	(47,072)
Total	**10,375**	**(56)**	**10,319**

Asset allocation
The asset allocation by major category for the defined benefit pension plans is as follows:

	Bermuda		Barbados	
	2013 %	2012 %	2013 %	2012 %
Equity instruments	13.91	13.83	5.32	5.04
Fixed income instruments	45.93	53.41	70.57	70.86
Real estate	10.38	11.89	-	-
Other	29.78	20.87	24.11	24.10
Total	**100.00**	**100.00**	**100.00**	**100.00**

Pension and medical plan assets include the company's ordinary shares with a fair value of $952.

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

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

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

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

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

Actuarial assumptions

The principal actuarial assumptions used in measuring the Group's accrued benefit obligations vary depending on whether the obligation is the result of Bermuda or Barbados based operations. Those significant assumptions are as follows (weighted-average assumptions as of 31 December 2013 and 2012:

	Defined benefit pension plans		**Medical benefit plans**	
	2013	**2012**	**2013**	**2012**
Bermuda	**%**	**%**	**%**	**%**
Benefit cost during the year:				
Discount rate	3.50	4.25	4.00	5.25
Rate of compensation increase	3.00	3.75	-	-
Accrued benefit obligation at end of year:				
Discount rate	4.50	3.50	3.50	3.00
Compensation increase	4.00	3.00	-	-

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.

	Defined benefit pension plans		**Medical benefit plans**	
	2013	**2012**	**2013**	**2012**
Barbados	**%**	**%**	**%**	**%**
Benefit cost during the year:				
Discount rate	7.75	7.75	7.75	7.75
Rate of compensation increase	6.00	6.00	-	-
Accrued benefit obligation at end of year:				
Discount rate	7.75	7.75	7.75	7.75
Compensation increase	6.00	6.00	-	-
Post-retirement indexation	-	2.50	-	-

Medical premium inflation in Barbados was assumed to be 6% (2012 – 6%).

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

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 plans		Medical benefit plans	
	Increase 2013 $	**Decrease 2013 $**	**Increase 2013 $**	**Decrease 2013 $**
Discount rate	7,064	5,689	489	417
Salary increase	1,198	1,095	-	-
Average life expectancy	557	85	23	23

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

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

For the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching ("ALM") framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. The Group's ALM objective is to match assets to the pension's obligation by investing in long-term fixed interest securities with maturities that match the benefits payments as they fall due.

The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the process used to manage its risk from previous periods. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

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

Expected contributions to post-employment benefit plans for the year ending 2014 are $1,177.

The weighted average duration of the defined benefit obligation is 14.47 years.

The weighted average duration of the medical plan obligation is 10.48 years.

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

21. INVESTMENT CONTRACT LIABILITIES

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

	2013 $	2012 $
Guaranteed interest pension		
Bermuda	276,293	263,678
Barbados	53,196	50,329
Term certain annuities	3,773	3,910
Total investment contract liabilities	**333,262**	**317,917**

Investment contract liabilities carried at amortised cost

	2013 $	2012 $
At 1 January	50,329	42,598
Pension contributions	4,914	7,610
Interest credited	3,041	3,339
Benefits paid	(4,708)	(2,933)
Management fees deducted	(380)	(285)
At 31 December	**53,196**	**50,329**

Investment contract liabilities carried at fair value

	2013 $	2012 $
At 1 January	267,588	246,978
Pension contributions	53,127	47,258
Interest credited	(2,030)	4,269
Benefits paid	(40,341)	(37,866)
Net transfers in	1,722	6,949
At 31 December	**280,066**	**267,588**

22. INSURANCE CONTRACT LIABILITIES

A. ASSUMPTIONS AND METHODOLOGY

i) Life and health insurance contracts

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

The 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 company 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.

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.

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 as the basis for setting annually renewable premiums. A very small block of individual disability assumes industry standard morbidity rates.

Mortality

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

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.

Expenses

Actuarial liabilities provide for future administrative policy-related expenses. These include the costs of premium collection, claims adjudication and processing, relating 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.

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.

ii) Short-term insurance contract liabilities

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

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

B. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2013 $	2012 $
Gross		
Short term insurance contracts:		
Claims reported and loss adjustment expenses	55,341	62,378
Unearned premiums	88,506	87,868
Claims incurred but not reported	15,979	14,218
Total short-term insurance contracts	**159,826**	**164,464**
Life and health insurance contracts:		
Participating		
Individual life	27,506	30,409
Non-participating		
Individual life	62,682	66,030
Individual and group annuities	86,325	83,129
Group life	12,122	11,932
Health and accident	24,489	21,681
Total life and health insurance contracts	**213,124**	**213,181**
Total insurance contract liabilities - gross	**372,950**	**377,645**
Net		
Short term insurance contracts:		
Claims reported and loss adjustment expenses	34,111	35,849
Unearned premiums	44,119	35,888
Claims incurred but not reported	10,411	8,525
Total short term insurance contracts	**88,641**	**80,262**
Life and health insurance contracts:		
Participating		
Individual life	28,603	31,484
Non-participating		
Individual life	77,365	77,507
Individual and group annuities	86,325	83,129
Group life	9,630	10,208
Health and accident	20,953	21,638
Total life and health insurance contracts	**222,876**	**223,966**
Total insurance contract liabilities - net	**311,517**	**304,228**

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

C. CHANGES IN SHORT TERM INSURANCE CONTRACT LIABILITIES

	2013			2012		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January						
Claims and adjustment expenses	62,378	(26,529)	35,849	60,859	(25,888)	34,971
Claims incurred but not reported	14,218	(5,693)	8,525	16,650	(4,312)	12,338
Total at 1 January	76,596	(32,222)	44,374	77,509	(30,200)	47,309
Liabilities acquired during acquisition	-	-	-	5,974	(4,375)	1,599
Cash paid for claims settled in year	(36,507)	14,470	(22,037)	(34,864)	12,115	(22,749)
Increase in liabilities:						
Arising from current-year claims	31,477	(9,911)	21,566	24,196	(7,358)	16,838
Arising from prior-year claims	(246)	865	619	3,781	(2,404)	1,377
Total at 31 December	**71,320**	**(26,798)**	**44,522**	**76,596**	**(32,222)**	**44,374**
Claims and adjustment expenses	55,341	(21,230)	34,111	62,378	(26,529)	35,849
Claims incurred but not reported	15,979	(5,568)	10,411	14,218	(5,693)	8,525
Total at 31 December	**71,320**	**(26,798)**	**44,522**	**76,596**	**(32,222)**	**44,374**

The fair value of the net provision for claims and adjustment expenses of $44,522 (2012 - $44,374) is $40,022 (2012 - $39,762). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

D. UNEARNED PREMIUM LIABILITY

	2013			2012		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	87,868	(51,980)	35,888	43,289	(21,106)	22,183
Acquired during business combinations	-	-	-	42,918	(26,346)	16,572
Premium written during the year	218,652	(124,426)	94,226	190,907	(135,603)	55,304
Premium earned during the year	(218,014)	132,019	(85,995)	(189,246)	131,075	(58,171)
Total at 31 December	**88,506**	**(44,387)**	**44,119**	**87,868**	**(51,980)**	**35,888**
Movement during the year, net of acquisition	**(638)**	**(7,593)**	**(8,231)**	**(1,661)**	**4,528**	**2,867**

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

E. CHANGES IN LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

	2013			2012		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Provision for policy benefits	209,326	10,785	220,111	184,409	8,454	192,863
Claims payable	3,881	-	3,881	4,894	-	4,894
Provision for participating policyholders	(26)	-	(26)	521	-	521
Life and health insurance Contract liabilities - 1 January	**213,181**	**10,785**	**223,966**	**189,824**	**8,454**	**198,278**
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	12,544	3,140	15,684	21,942	3,998	25,940
Changes in assumptions:						
Investment returns	(11,084)	(3,466)	(14,550)	2,496	3	2,499
Mortality	(408)	3	(405)	(1,015)	(72)	(1,087)
Lapse	405	(705)	(300)	618	44	662
Expense	(160)	196	36	432	25	457
Premium payment patterns	(632)	(738)	(1,370)	608	43	651
Other	(374)	(20)	(394)	(1,286)	(100)	(1,386)
Other changes	(576)	557	(19)	1,122	(1,610)	(488)
	(285)	(1,033)	(1,318)	24,917	2,331	27,248
Provision for policy benefits	209,041	9,752	218,793	209,326	10,785	220,111
Claims payable	4,482	-	4,482	3,881	-	3,881
Provision for participating policyholders	(399)	-	(399)	(26)	-	(26)
Life and health insurance contract liabilities – 31 December	**213,124**	**9,752**	**222,876**	**213,181**	**10,785**	**223,966**

The majority of the fair value of future policy benefits is determined by reference to the fair value of the assets supporting those liabilities. As assets supporting future policy benefits are reported at fair value in the 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.

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

F. COMPOSITION OF THE ASSETS SUPPORTING LIABILITIES

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

2013

	Bonds and fixed income securities $	Mortgages and loans $	Equities $	Derivatives $	Cash $	Total $
Participating						
Individual life	24,884	3,073	-	-	663	28,620
Non-participating						
Individual life	68,287	12,084	-	819	1,042	82,232
Individual and group annuities	58,901	28,306	-	-	-	87,207
Group life	2,430	1,188	-	-	3,566	7,184
Health and accident	8	4	-	-	17,621	17,633
	154,510	**44,655**	**-**	**819**	**22,892**	**222,876**

2012

	Bonds and fixed income securities $	Mortgages and loans $	Equities $	Derivatives $	Cash $	Total $
Participating						
Individual life	27,371	3,207	-	-	906	31,484
Non-participating						
Individual life	47,102	11,919	17,077	883	526	77, 507
Individual and group annuities	55,954	27,175	-	-	-	83,129
Group life	1,919	3,154	-	-	5,135	10,208
Health and accident	-	604	-	-	21,034	21,638
	132,346	**46,059**	**17,077**	**883**	**27,601**	**223,966**

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

23. SHARE CAPITAL

	2013 $	2012 $
Authorised - 10,000,000 (2012 - 10,000,000) common shares of a par value of $1 each	10,000	10,000
Issued and fully paid - Common shares of a par value of $1 each	8,558	8,477

Common shares in issue in the Group rank pari passu with any new common shares issued in the Group. All the common shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Group.

A reconciliation of the number of shares outstanding at the beginning and at the end of the period is as follows:

	2013 # of shares	2012 # of shares
At 1 January	8,476,970	8,384,746
Shares issued under the employee share purchase plan	21,895	11,700
Shares issued under the equity incentive plan	16,473	7,381
Stock grants issued under the equity incentive plan	43,230	73,143
At 31 December	**8,558,568**	**8,476,970**

Share premium and contributed surplus
Share premium comprises additional paid in capital in excess of the par value. This reserve is not ordinarily available for distribution. Contributed surplus represents additional paid in capital.

Accumulated other comprehensive loss
This consists of translation adjustments arising from the consolidation of the BF&M Canada operations, unrealised gains and losses on available for sale financial assets, and actuarial gains and losses on employee benefit plans.

Employee share purchase plan
Under the plan 300,000 shares (2012 - 250,000) have been made available for employee share purchase. As at 31 December 2013, 256,005 shares had been purchased (2012 – 234,110). During the year 21,895 (2012 – 11,700) shares were issued. The fair value of the shares amounted to $367 (2012 - $181) which was credited to share capital and share premium. The discount of $55 (2012 - $27) was charged to compensation expense.

Shares held by the Group's defined benefit pension scheme
As at 31 December 2013, 55,992 (2012 – 55,992) shares of the Group were owned within the investment portfolio of the Group's defined benefit pension scheme.

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

A. EQUITY INCENTIVE PLAN

i) Stock options

The stock options granted have a ten-year term and vest to the grantees over a three-year period. The following table summarises the stock options issued under the Group's Equity Incentive Plan:

	# of options	2013 Weighted average exercise price	# of options	2012 Weighted average exercise price
Outstanding at beginning of year	170,195	17.60	177,576	16.39
Exercised	(16,473)	10.50	(7,381)	8.97
Outstanding at end of year	153,722	18.36	170,195	17.60
Exercisable at 1 January 2014 and 2013	**153,722**	**18.36**	**170,195**	**17.60**

The following table summarises information about stock options outstanding at year-end:

Stock options expiring 1 January	# of options outstanding	# of options exercisable as at 1 January 2014	Exercise price $
2015	-	-	13.43
2016	51,122	51,122	16.19
2017	50,600	50,600	16.82
2018	52,000	52,000	22.00
Total	**153,722**	**153,722**	

ii) Restricted stock grants and restricted units

During the year 43,230 (2012 – 73,143) common shares and 7,253 units (2012 – 10,525) were issued to certain key employees in respect of restricted stock grants and restricted unit grants. These are held by the Group and are restricted from sale or use by the employees for three years from the grant date. Restricted unit grants differ from restricted stock grants in that no common shares are issued at the time of the grant; instead they are issued after the vesting date. The amount of the benefit to these key employees totalled $820 (2012 – $1,339) and will be amortised through earnings over a three year period with accelerated vesting for employees over 55 years of age. The amount charged to compensation expense in the current year totalled $309 (2012 – $327).

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

Restricted stock and unit grants vesting	# of shares	# of share units
1 January 2014	-	-
1 January 2015	62,187	10,525
Total	**62,187**	**10,525**

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

B. EARNINGS PER SHARE

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

	2013			2012		
	Income $	# of weighted average shares	per share amount $	Income (revised) $	# of weighted average shares	per share amount (revised) $
Net earnings	25,151			21,885		
Basic earnings per share: Income available to common shareholders	25,151	8,524,348	2.95	21,885	8,423,635	2.60
Effect of dilutive securities: Stock options		2,952			5,271	
Diluted earnings per share: Income available to common shareholders and assumed conversions	25,151	8,527,300	2.95	21,885	8,428,906	2.60

The weighted average number of shares used in the calculation of diluted earnings per share for 2013 excludes 15,307 (2012 – 29,089) share options granted to employees of the Group, as these would have been anti-dilutive. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

24. 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.

	2013 $	2012 (revised) $
Commission income	33,270	37,944
Fees earned from management of insurance contracts	681	2,778
Fees earned from management of investment contracts	408	550
Pension administration income	4,582	3,299
Fee income	1,034	3,010
Total	**39,975**	**47,581**

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

25. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2013 $	2012 (revised) $
Gross life and health claims and benefits paid	93,083	102,079
Reinsurance recoveries	(7,993)	(5,782)
Change in insurance contract liabilities	(2,043)	10,162
Change in reinsurance assets	727	(991)
Total life and health policy benefits	**83,774**	**105,468**
Gross short term claim and adjustment expenses paid	36,507	34,953
Reinsurance recoveries	(14,470)	(12,115)
Change in insurance contract liabilities	(5,276)	(6,555)
Change in reinsurance assets	5,424	2,021
Total short term claim and adjustment expenses	**22,185**	**18,304**
Total insurance contracts benefits and expenses	**105,959**	**123,772**

26. OPERATING EXPENSES

	2013 $	2012 (revised) $
Wages and salaries	39,428	34,825
Professional and consulting fees	6,532	6,577
Pension costs	1,241	2,242
IT maintenance contracts	2,574	2,305
Advertising and business development	2,933	2,168
Bank charges and foreign currency purchase tax	2,042	1,904
Office rent	1,841	1,701
Acquisition related expenses	(360)	1,411
Share expense	1,000	354
Other	5,829	3,914
Total	**63,060**	**57,401**

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

27. RELATED PARTIES

The Group has a significant shareholder, Lawrie (Bermuda) Ltd., incorporated in Bermuda, which owns 34% of the company's shares. The remaining shares are widely held.

As disclosed in Note 1, a number of the subsidiaries transacted with the Group during the year in the normal course of business. These transactions are eliminated on consolidation.

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

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2013 $	2012 $
Sales of insurance contracts and pension services:		
- Key management	164	182
Purchase of services:		
- Key management	201	305

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2013 $	2012 $
Salaries and other short-term employee benefits	4,703	2,150
Post-employment benefits	161	125
Other long-term benefits	19	10
Share based payments	565	913
Total	**5,488**	**3,198**

Pursuant to Regulation 6.8 (3) of Section 11A of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and officers of the Group in the common shares of the Group at 31 December 2013 were 285,190 (2012 – 338,659) shares. No rights to subscribe for shares in the Group have been granted to or exercised by any director or officer, other than those disclosed in note 23.

C. LOANS TO RELATED PARTIES

Loans are extended to key management of the Group (and their families) and to companies related to key management. These loans are collateralized by the property acquired with the proceeds of the loan. 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.

	2013 $	2012 $
At beginning of year	9,776	10,225
Adjustment for changes in key management	(3,071)	-
Loans extended / (repayments received)	1,434	(1,157)
Interest charges	26	708
At end of year	**8,165**	**9,776**

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

28. MAINTENANCE OF NET WORTH AGREEMENT

On 17 March 2006, an agreement was signed between the Group and Bermuda International whereby the Group and Bermuda International desire to provide certain assurances to parties, who hold risk contracts with Bermuda International, with respect to the financial condition of Bermuda International. The Group will, in accordance with the terms of the agreement, ensure that Bermuda International has, at all times, sufficient net worth to meet any and all valid claims of the parties who hold risk contracts with Bermuda International. The Group agrees that it shall ensure that Bermuda International has a net worth at least equal to required regulatory minimum capitalisation under The Insurance Act 1978, amendments thereto, and related regulations. If Bermuda International falls below the minimum net worth amount it will notify the Group and the Group will provide funds to Bermuda International within 10 business days.

29. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

	2013 $	2012 (revised) $
Items that will not be subsequently reclassified to profit or loss		
Re-measurement of post-employment benefit obligation	(2,541)	(6,890)
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available for sale financial assets	(1,962)	(2,109)
Unrealised foreign exchange gains / (losses) on translation of foreign operations	(18)	38
Total	**(4,521)**	**(8,961)**

30. BUSINESS COMBINATIONS

On 30 March 2012, BF&M Limited acquired 100 percent of the common shares of IHHL. IHHL's principal subsidiary is Island Heritage Insurance Company, Ltd., a leading Cayman Islands based company that writes property and casualty insurance in the Caribbean region. This acquisition has further strengthened the Group's position as a strong regional insurer in the Caribbean.

For the year ended 31 December 2012 the acquired business contributed income of $29,921 and net income of $3,627 to the consolidated statement of comprehensive income since 30 March 2012. If the business combination had occurred on 1 January 2012, the Group would have reported income of $41,084 and earnings of $5,733 in 2012.

Acquisition related expenses of $1,411 were charged to operating expenses in the Group's consolidated statement of income in 2012.

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

The following table summarises the consideration transferred to acquire IHHL and the amounts of identified assets acquired and liabilities assumed at the acquisition date. Certain balances have been disclosed to provide more meaningful information.

Fair value of total consideration transferred:	
Cash	**70,121**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	36,486
Investments	20,679
Insurance receivables and other assets	32,856
Reinsurance assets	30,721
Property and equipment	1,292
Intangible assets	17,870
Tax recoverable	343
Deferred tax asset	415
Insurance contract liabilities	(40,943)
Other liabilities	(37,298)
Total identifiable net assets	**62,421**
Goodwill	**7,700**

The goodwill is attributable to the workforce of the acquired business and the synergies expected to arise with the Group's acquisition of IHHL.

The fair value of acquired receivables approximates its carrying value. The gross contractual amount of acquired receivables is equal to the net receivable except for premiums receivable, which is included within insurance receivables and other assets in the consolidated statement of financial position. The gross contractual amount of premiums receivables was $16,914 of which $425 was expected to be uncollectible.

The Group acquired a loan of $28,000 in order to assist with the purchase. The remaining cash consideration of $42,121 was funded from cash generated through ongoing operations. The term of the loan is 4 years, with an interest rate of 2.5% above LIBOR.

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

31. COMMITMENTS AND CONTINGENCIES

Operating leases

The Group leases buildings under various agreements which terminate between 2014 and 2015. These agreements include an extension option.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2013 $	2012 $
No later than 1 year	4,057	4,286
Later than 1 year and no later than 5 years	880	4,937
Later than 5 years	-	-
Total	**4,937**	**9,223**

32. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTEREST

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

Summarised statement of financial position

	2013 $	2012 (revised) $
Total assets	211,109	207,886
Total liabilities	133,358	134,158
Net assets	**77,751**	**73,728**

Summarised statement of income

	2013 $	2012 (revised) $
Net premium earned	33,084	28,459
Underwriting income	19,005	13,103
Income before taxes	9,181	7,257
Income taxes	(1,792)	(1,121)
Net income after taxes	**7,389**	**6,136**

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

Summarised statement of comprehensive income

	2013 $	2012 (revised) $
Items that will not be reclassified to profit or loss	540	(458)
Items that may be subsequently reclassified to profit or loss	290	(793)
Total comprehensive income	**8,219**	**4,885**
Income attributable to non-controlling interest	**31**	**439**

Summarised statement of cash flows

	2013 $	2012 (revised) $
Net cash generated from operating activities	(886)	5,545
Net cash used in investing activities	5,606	3,201
Net cash used in financing activities	(2,487)	(2,309)
Net increase in cash and cash equivalents	**2,233**	**6,437**
Cash and cash equivalents at beginning of year	**13,915**	**7,478**
Cash and cash equivalents at end of year	**16,148**	**13,915**

33. SUBSEQUENT EVENTS

On 14 March 2014, the Group declared a dividend to be paid to shareholders of record at 31 March 2014. The dividend was paid on 15 April 2014. $1,713 was paid out in total, representing a $0.20 dividend paid on 8,564,405 shares.

DIRECTORS AND OFFICERS OF PRINCIPAL OPERATING SUBSIDIARIES

BF&M GENERAL INSURANCE COMPANY LIMITED

DIRECTORS	**Nancy L. Gosling, B.Comm., C.G.A. LL.D.,** *Chairman*
	Gregory D. Haycock, FCA., J.P., *Deputy Chairman*
	Gavin R. Arton
	L. Anthony Joaquin, FCA
	R. John Wight, C.A., CPCU
	Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer
OFFICERS	**R. John Wight, C.A., CPCU,** *Group President & Chief Executive Officer*
	Michael White, FIA, *Group Chief Financial Officer*
	Abigail Clifford, B.A., M.Sc., *Group Chief Human Resources Officer*
	Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer, *Senior Vice President*
	Patrick Neal, B.A., CPCU, *Senior Vice President, Business Development*
	Heather A. Bisbee, C.A., *Head of Financial Reporting*
	Lynda A. Davidson Leader, B.A., C.A., *Vice President, Corporate Services*
	Andrew Hanwell, *Vice President, Personal Insurance*
	Henry Sutton, CPCU, ARe, *Vice President, Customer Relations*
	Angela R. Tucker, C.A., *Vice President and Group Controller*

BF&M LIFE INSURANCE COMPANY LIMITED

DIRECTORS	**Garry A. Madeiros, OBE, FCA., J.P.,** *Chairman*
	Stephen W. Kempe, *Deputy Chairman*
	Gavin R. Arton
	Catherine S. Lord, B.Sc., J.P.
	Ann B. Teixeira, LLIF
	C.L.F. "Lee" Watchorn, F.C.I.A., F.S.A.
	R. John Wight, C.A., CPCU
	Paul Matthews, B.A., FLMI
OFFICERS	**R. John Wight, C.A., CPCU,** *Group President & Chief Executive Officer*
	Michael White, FIA, *Group Chief Financial Officer*
	Abigail Clifford, B.A., M.Sc., *Group Chief Human Resources Officer*
	Paul Matthews, B.A., FLMI, *Senior Vice President*
	Patrick Neal, B.A., CPCU, *Senior Vice President, Business Development*
	Heather A. Bisbee, C.A., *Head of Financial Reporting*
	Gina A. Bradshaw, FLMI, *Vice President*
	Lynda A. Davidson Leader, B.A., C.A., *Vice President, Corporate Services*
	Holly A. Flook, RN, BSN, *Vice President, Health*
	Rob Jackson, CFP, CLU, *Vice President, Sales*
	Dennis Marinac, F.C.I.A., F.S.A., *Vice President and Life Actuary*
	Alyson L. Nicol, C.A., C.P.A., *Vice President, Pensions*
	Angela R. Tucker, C.A., *Vice President and Group Controller*

DIRECTORS AND OFFICERS OF PRINCIPAL OPERATING SUBSIDIARIES

BERMUDA INTERNATIONAL INSURANCE SERVICES LIMITED

DIRECTORS	**Richard D. Spurling,** *Chairman* **Ann Teixeira, LLIF,** *Deputy Chairman* **C.L.F. "Lee" Watchorn, F.C.I.A., F.S.A.** **R. John Wight, C.A., CPCU**
OFFICERS	**R. John Wight, C.A., CPCU,** *President & Chief Executive Officer* **Jay Judas, M.Sc., JD,** *Senior Vice President*

BF&M INVESTMENT SERVICES LIMITED

DIRECTORS	**Stephen W. Kempe,** *Chairman* **Gavin R. Arton,** *Deputy Chairman* **R. John Wight, C.A., CPCU** **Lynda A. Davidson Leader, B.A., C.A.**
OFFICERS	**R. John Wight, C.A., CPCU,** *President & Chief Executive Officer* **Miguel DaPonte, C.F.A., M.B.A.,** *Senior Vice President*

INSURANCE CORPORATION OF BARBADOS LIMITED

DIRECTORS	**R. John Wight, C.A., CPCU,** *Chairman* **Carlos Holder, J.P., M.A. (Econ),** *Vice Chairman* **Ingrid Innes, A.G.D.M., M.B.A.,** *Managing Director and Chief Executive Officer* **Goulbourne Alleyne, F.C.I.I., M.B.A.,** *Deputy Chief Executive Officer* **Jennifer Hunte, F.C.G.A., F.C.I.S.** **Winston Beckles, LL.B., LL.M. (Lond.)** **Eric Smith, Dip. (Mass Comm)** **Gordon Henderson, B.A. Econ (Summa Cum Laude), LL.B. (Hons.)** **Juanita Thorington-Powlett, M.B.A., F.C.I.S.** **Toni Jones, LL.B. (Hons.)** **Clyde Q. Williams, FLMI, C.P.A.** **C.L.F. "Lee" Watchorn, F.C.I.A., F.S.A.**
OFFICERS	**Ingrid Innes, A.G.D.M., M.B.A.,** *Managing Director & Chief Executive Officer* **Goulbourne Alleyne, F.C.I.I., M.B.A.,** *Deputy Chief Executive Officer* **Henry Inniss, M.B.A., L.L.I.F.,** *Senior Vice President and Head of Life Division* **Valentina J.G.R. Blackman, LL.B. (Hons), LL.M.,** *Secretary*

ISLAND HERITAGE HOLDINGS LTD.

DIRECTORS	**Gavin R. Arton,** *Chairman* **R. John Wight, C.A., CPCU,** *Deputy Chairman* **Conor O'Dea, FCA** **C.L.F. "Lee" Watchorn, F.C.I.A., F.S.A.** **Gregory D. Haycock, FCA, J.P.** **Aaron E. Smith, B.Sc. (Hons), M.B.A.** **Marc Shirra, FCCA, A.C.I.I.,** *Chief Executive Officer*
OFFICERS	**Marc Shirra, FCCA, A.C.I.I.,** *Chief Executive Officer* **Jonathon Coleman, B.Sc. (Hons), ACA** *Chief Operating Officer* **Annette Jim, A.C.I.I., DipFM,** *Chief Underwriting Officer* **Bryan O'Neal, M.B.A.,** *Senior Vice President, Operations and Corporate Strategy*

NOTES

Head Office
Insurance Building | 112 Pitts Bay Road | Pembroke HM 08 | Bermuda
P. O. Box HM 1007 | Hamilton HM DX | Bermuda
Tel: 441-295-5566 | Fax: 441-292-8831 | www.bfm.bm

Subsidiary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.5% ownership)
Island Heritage Holdings Ltd.
Bermuda International Insurance Services Limited
Bermuda International Reinsurance Services Limited
BF&M Investment Services Limited
BF&M (Canada) Limited
BF&M Properties Limited
Barr's Bay Properties Limited (60% ownership)
Hamilton Reinsurance Company Limited
Scarborough Property Holdings Limited (60% ownership)
Marchmont Insurance Company Limited
Hamilton Financial Limited

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