BF&M LIMITED

ANNUAL REPORT 2014

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

Diversification, both geographically and by line of business, continues to reap economic benefits for the Group. This diversification is fundamental to why the Group consistently achieves such a strong annual return on equity.

R. John Wight, CPA, CA, 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., PMP
Group Chief Information Officer

Marc Shirra, FCCA, 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

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

Bryan O'Neal, M.B.A., CPCU
Senior Vice President
Operations & Corporate Strategy

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

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

[2] **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)

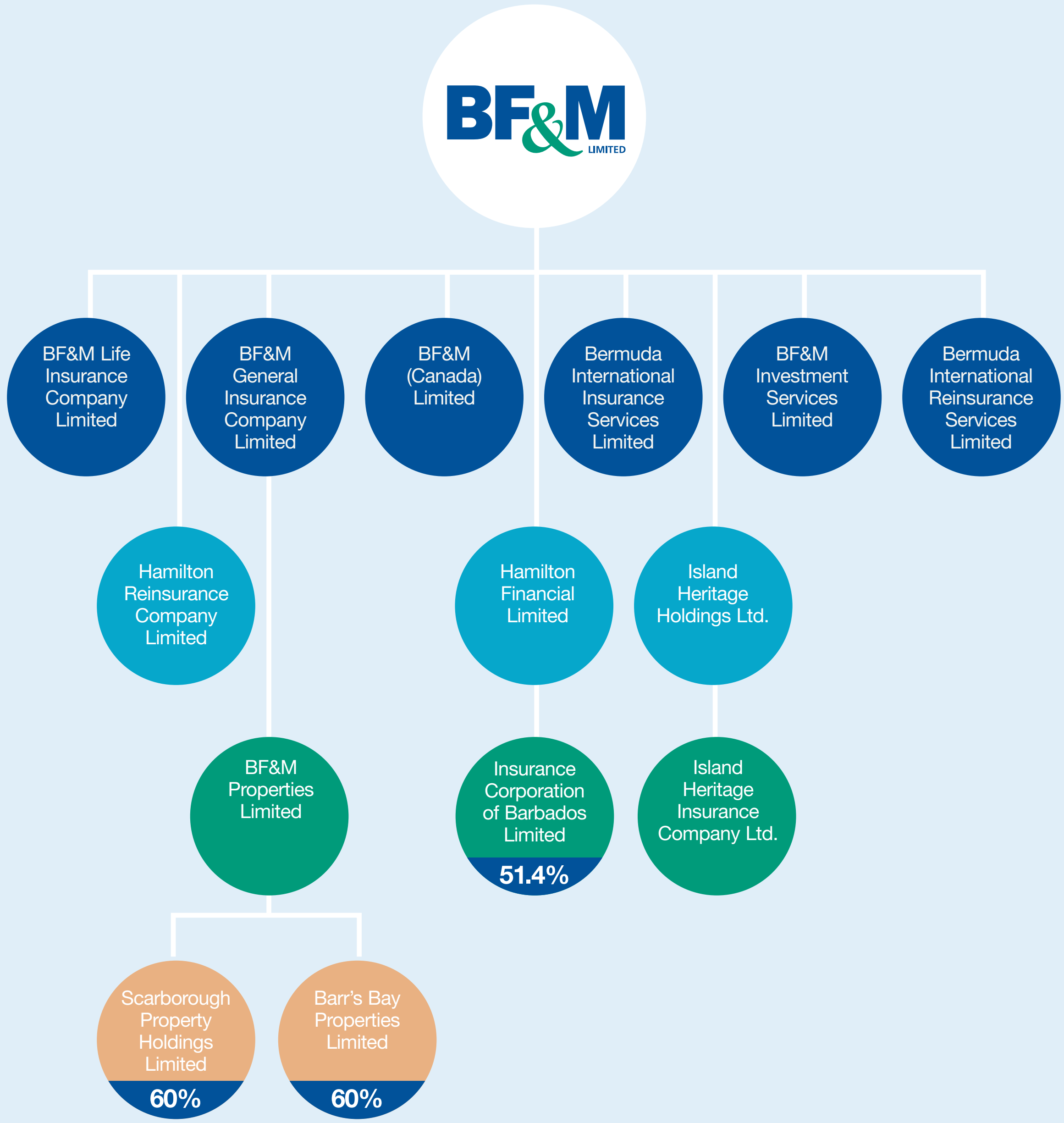
[1] **Richard D. Spurling,** Retired Partner, Appleby, Barristers & Attorneys

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

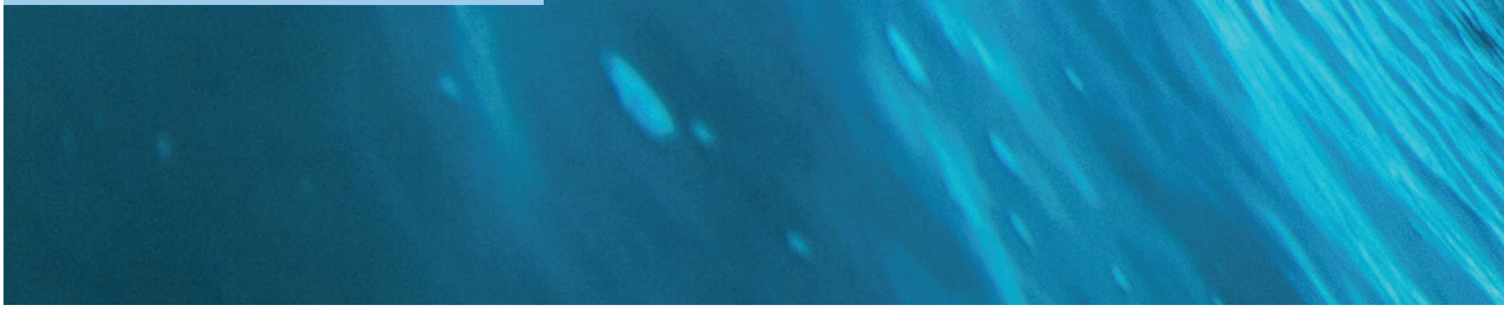
[2] **C.L.F. "Lee" Watchorn,** FCIA, FSA, President, Watchorn Advisory Group

R. John Wight, CPA, CA, CPCU, President & Chief Executive Officer, BF&M Limited

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

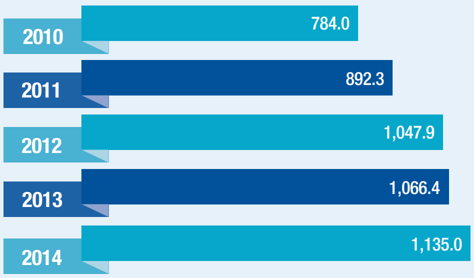

BF&M LIMITED
BF&M Life Insurance Company Limited
BF&M General Insurance Company Limited
BF&M (Canada) Limited
Bermuda International Insurance Services Limited
BF&M Investment Services Limited
Bermuda International Reinsurance Services Limited
Hamilton Reinsurance Company Limited
Hamilton Financial Limited
Island Heritage Holdings Ltd.
BF&M Properties Limited
Insurance Corporation of Barbados Limited
51.4%
Island Heritage Insurance Company Ltd.
Scarborough Property Holdings Limited
60%
Barr's Bay Properties Limited
60%

FINANCIAL & STATISTICAL SUMMARY

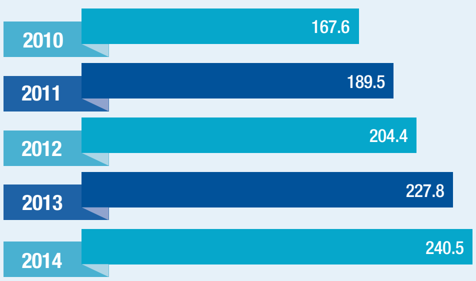


AT END OF YEAR

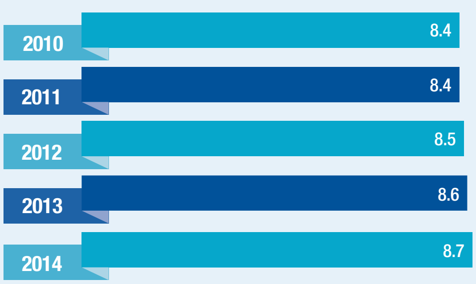
Total General Fund Assets
in millions of dollars



Shareholders' Equity
in millions of dollars

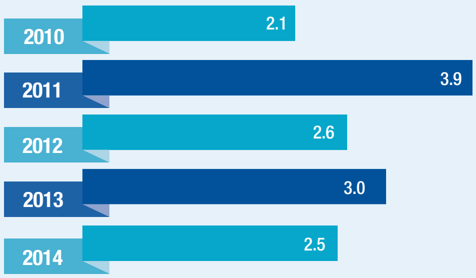


Number of Common Shares
in millions



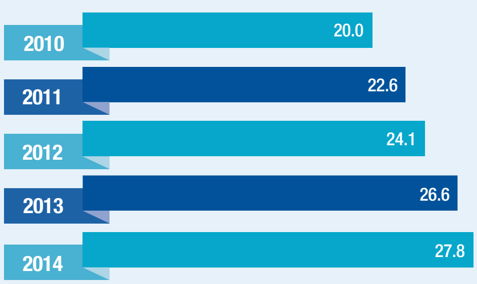
PER COMMON SHARE

Net Earnings
in dollars



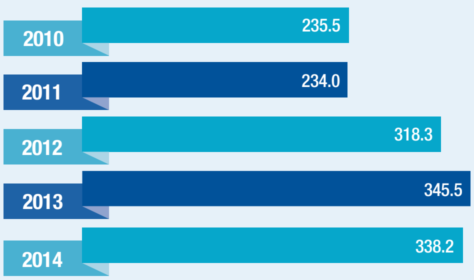
Cash Dividends
in cents

Book Value
in dollars

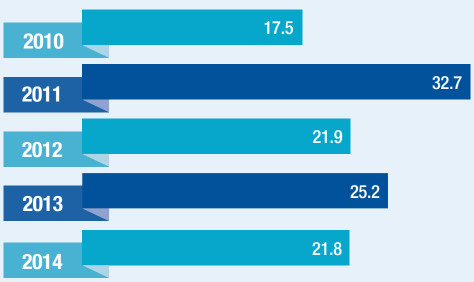


FOR THE YEAR

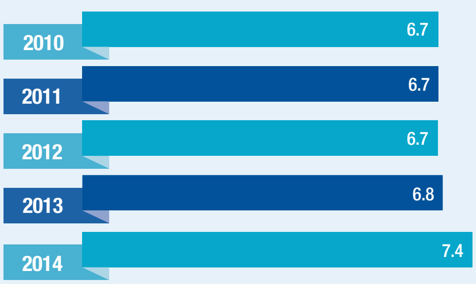
Gross Premiums Written
in millions of dollars



Shareholders' Net Income
in dollars

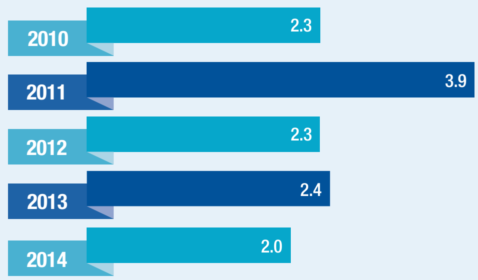


Dividends Declared
in millions of dollars

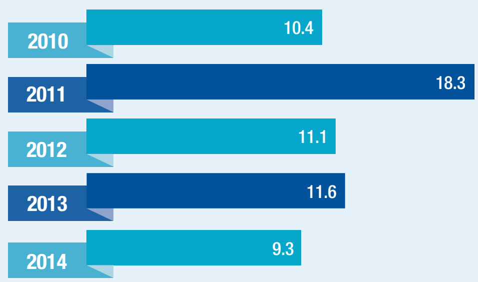


FINANCIAL RATIOS

Return on Assets
percentage



Return on Common Shareholders' Equity
percentage



SHAREHOLDERS' REPORT

2014 was a year of many successes and progress for BF&M. BF&M Limited, a company once with Bermuda operations only, is becoming one of only a few dominant insurers in Bermuda and the Caribbean. More than half of BF&M's earnings in 2014 were earned from operations outside of Bermuda.

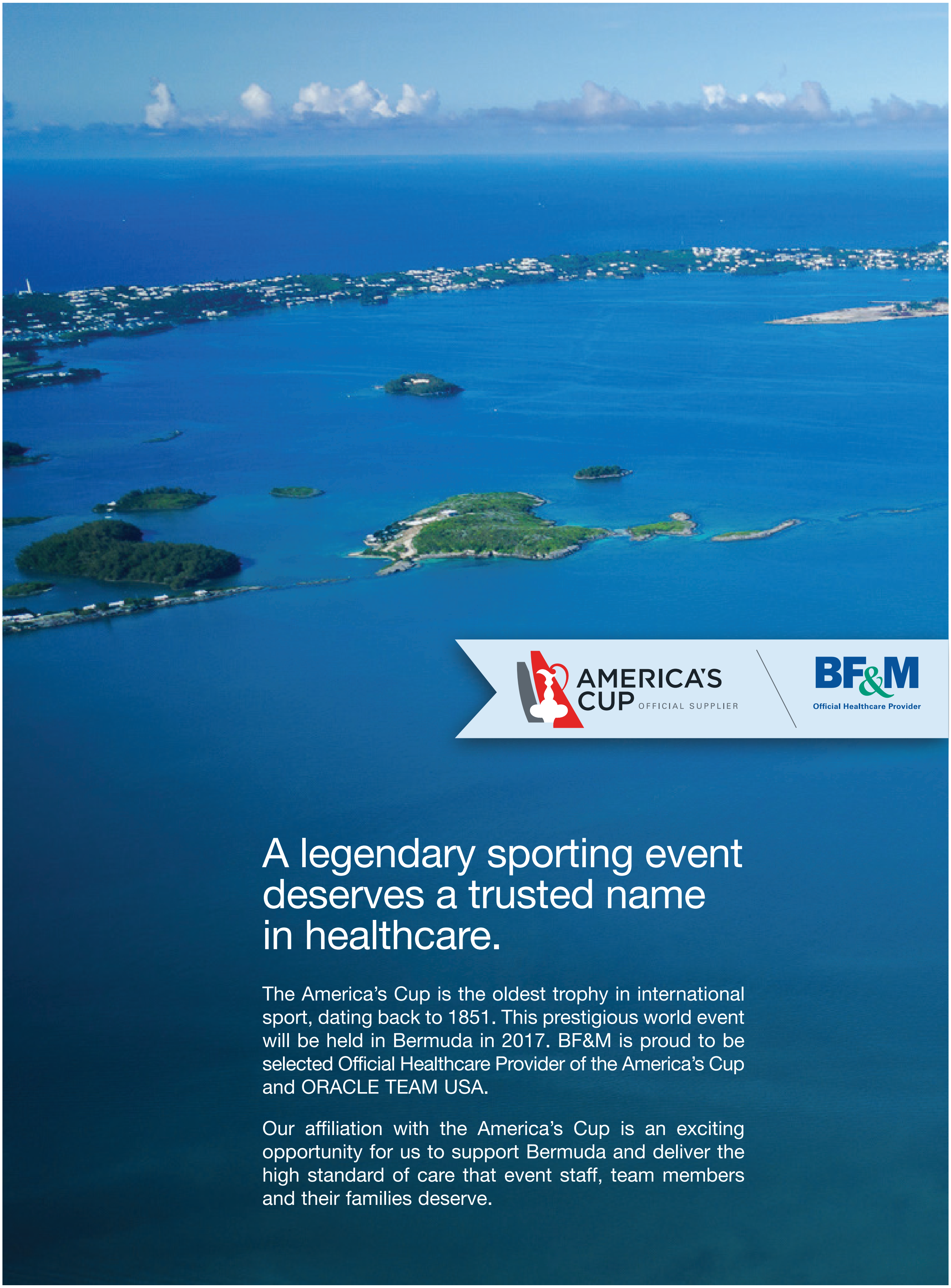
Shareholders' net earnings for the year ended 31st December, 2014 were $21.8 million, equating to a return on equity of 9.3%. This compared with earnings of $25.2 million for 2013 and a return on equity of 11.6%. The financial effects of Hurricanes Fay and Gonzalo in Bermuda impacted 2014 earnings by approximately $7 million. This will be discussed later in this report.

The Board of Directors, in assessing the Company's strong balance sheet, and plans for continued financial success, approved an increase during 2014 in the dividend from 20c per share per quarter to 22c per share per quarter.

Positive earnings from BF&M's Bermuda and Caribbean based core businesses of insurance, investment advisory and pension administration services were achieved despite the seemingly endless recessionary pressures that in 2014 continued to affect the businesses and residents of the 16 islands in which the BF&M Group conducts business. While there has been some moderate improvement in certain islands, it is fair to say that there is a new reality for the economies of Bermuda and the Caribbean for the foreseeable future. As a business, we are proactively getting ahead of this new reality by looking at ways to become more operationally efficient to service our many businesses. Increased revenues through new business opportunities, has traditionally fueled the BF&M Group's earnings.

Diversification, both geographically and by line of business, continues to reap economic benefits for the Group as there is no dependence on any one island or any one line of business. This diversification is fundamental to why the Group has achieved such a constant annual return on equity above our competitors in the Bermuda and Caribbean region. With the exception of 2014's return on equity of 9.3% which was impacted by two hurricanes, the Company has exceeded 10% returns for 13 consecutive years.

Acquisitions of the Insurance Corporation of Barbados Limited and Island Heritage Insurance Company Ltd. in particular 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.



A legendary sporting event deserves a trusted name in healthcare.

The America's Cup is the oldest trophy in international sport, dating back to 1851. This prestigious world event will be held in Bermuda in 2017. BF&M is proud to be selected Official Healthcare Provider of the America's Cup and ORACLE TEAM USA.

Our affiliation with the America's Cup is an exciting opportunity for us to support Bermuda and deliver the high standard of care that event staff, team members and their families deserve.

We were pleased that rating agency A.M. Best maintained their Financial Strength Ratings for three of the four BF&M principal operating companies, and we were particularly pleased that the financial strength rating for Island Heritage was increased from "A-" Excellent to "A" Excellent. 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
- Island Heritage Insurance Company Ltd
  "A" Excellent
- Insurance Corporation of Barbados Limited
  "A-" Excellent

These ratings are as strong as any local insurer in each of these companies respective marketplaces.

As we note each year in our report, the accounting policy under International Financial Reporting Standards for valuing investments, in life enterprises in particular, can and often does lead to significant volatility of financial results. The Company records a significant portion of its investments at fair value, which in 2014 resulted in an increase to income of $20.3 million due to decreased long term interest rates on the Company's significant fixed income portfolio. This increase of $20.3 million compares with a decrease of $22.8 million in 2013.

In order to mitigate some of this volatility, that from year to year can potentially have a significant influence on earnings, 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 2014, the difference between fair valuing investments and reserves for BF&M's life insurance companies produced a net gain of approximately $2.4 million. In 2013, the net difference resulted in a loss of approximately $3.8 million.

Impairment in valuations on certain mortgages in Bermuda continued in 2014 and this reduced earnings by $1.9 million, with the corresponding figure for 2013 being $4.4 million. Mortgages still, however, continue to play an important role in our asset liability matching programmes.

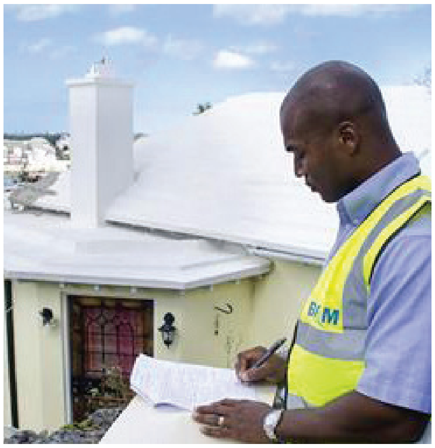
BF&M had eight profit centres in 2014 which we will report on as follows:

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

Bermuda General Insurance

Net earnings in 2014 were down considerably over 2013, due to the effects of claims paid and reserved for in respect of Hurricanes Fay and Gonzalo. The financial effects of these hurricanes will continue to be felt in 2015 due to the loss of profit commission from reinsurers on business ceded to them, as a result of these hurricanes.

We are extremely proud of the efforts of our team following the events of October 12th and 17th. The whole Bermuda-based team came together to provide professional claims services to our valued policyholders at the time of their greatest need. Staff serviced our first client shortly after dawn the morning after Hurricane Gonzalo and had a functioning satellite office in St. George's the same morning. This level of service is what BF&M prides itself on. While the General Insurance Company leadership and claims teams provided their expertise and skills to manage the extensive amount of work over many months, employees from the entire Company, regardless of their roles, pitched in to assist in every way possible. In addition, the Company played a lead role in the community in acting swiftly to absorb the second deductible on behalf of the many customers of BF&M that suffered property damage in both storms. While this was not an inconsequential amount, we felt that as a corporate leader in our community, it was the right decision based on the unique situation of having two hurricanes hit Bermuda over a five day period. In fact, Bermuda has never experienced direct hits from two named hurricanes in the same year.


BF&M


The MAGAZINE BottomLine
December 2014
BERMUDA
2014
TOP
TEN
EMPLOYERS


www.bermudaRELAY.com
www.bermudaRELAY.com
BF&M


Proud Supporter of Breast Cancer Awareness Month
Welcome to the
BF&M Preventive
Health Fair
BF&M www.bfm.bm
Bermuda Cancer and Health Centre
BF&M

Despite the damage to commercial and personal property, it is fair to say that the island overall fared extremely well, a testament to the building code and materials used in Bermuda and the excellent preparation by residents before the storms hit.

The Company continued the practice of purchasing a conservative reinsurance programme with world class reinsurers. It is following events such as the two hurricanes that our programmes get tested. We were very pleased with the support that our brokers and reinsurers provided to us.

The Company continues to distinguish itself as the only insurer in Bermuda that offers real time online transactional processing of new and renewal insurance business for home, motor, marine, and travel business. In addition, 2014 was the first full year of the Company's 24/7 Roadside Assistance programmes for our car and cycle policyholders.

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 and earnings improved from 2013.

Group Life noted improved earnings due to favourable net claims experience and expansion into new territories. Group Health experienced top line growth with exemplary retention, whilst the claims trend leveled off resulting in encouraging performance.

During 2014 the Company delivered three key services and products to the marketplace: namely Remote Second Opinion, Personal Medical Guidance, and Critical Illness coverage. Each of these offerings allowed the Life Company 'first to market' recognition; providing further endorsement of the strong, progressive and growing BF&M brand.

In addition, BF&M became the first health insurer in Bermuda to offer clients the ability to have their health claims paid to them directly into their own bank accounts.

Healthcare economics remained centre stage last year. Increasing per person healthcare costs announced in 2014, resulted in Bermuda being the second highest country in the world, in terms of per capita spending. Despite this indicator, Bermuda continues to suffer lower than average life expectancy. Compounding this challenge is current and future risk, related to the rising aged population, the rates of chronic non-communicable illnesses and the need to moderate increasing expenses due to healthcare delivery infrastructure development.

With these factors in mind, BF&M increased the scope of many preventative healthcare benefits aimed specifically at obesity reduction and smoking cessation. Significant efforts surrounding our wellbeing platforms and domestic preventative health networks were made.

Technology advancement in the form of electronic claims and payment programmes and other health related projects also kept our teams busy throughout the year.

Barbados Operations

The financial results of BF&M's Barbados-based businesses, through our 51.4% ownership interest in the Insurance Corporation of Barbados Limited ("ICBL") were down in 2014 from 2013.

The reasons for the decrease in performance, related largely to strengthening of certain reserves in respect of prior year motor claims. The Company continues to be the leading P&C insurer in Barbados and grew its market share in 2014.

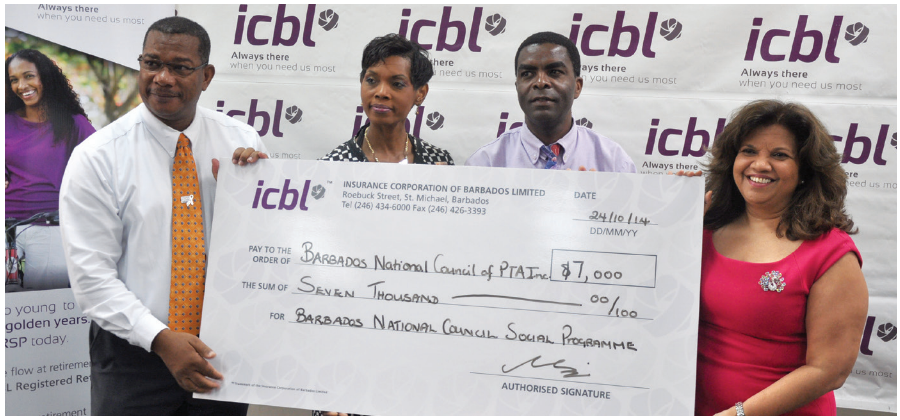
Unfortunately the Barbados economy continues to have serious issues that are affecting most residents and businesses on the island, and ICBL is not immune to the challenges that many of our policyholders are experiencing. During December 2014, Standard & Poor's Rating Services downgraded Barbados' long-term sovereign credit rating by one notch to "B" from "BB-", reaffirming a negative outlook. The country's short-term rating was reaffirmed at "B" with an outlook as negative. ICBL holds a significant amount of Government debt and thus we continue to monitor carefully the economic situation in Barbados.

Cayman Operations

Island Heritage, headquartered in Cayman, recorded strong earnings in 2014, in a year largely unaffected by hurricanes in the 15 islands that their insurance business is conducted in.

Most of Island Heritage's insurance business is sourced through producer channels and the Company continues to strengthen its relationships with the top agents and banks in multiple countries.


icbl


icbl
Always there
when you need us most
INSURANCE CORPORATION OF BARBADOS LIMITED
Roebuck Street, St. Michael, Barbados
Tel (246) 434-6000 Fax (246) 426-3393
DATE
24/10/14
DD/MM/YY
PAY TO THE ORDER OF
Barbados National Council of PTA Inc
$7,000
THE SUM OF
Seven Thousand
00/100
FOR
Barbados National Council Social Programme
AUTHORISED SIGNATURE


icbl 2014
Family Fun
WALK & RUN
0337


icbl

As mentioned earlier, we were very pleased that A.M. Best upgraded the Company's Financial Strength Rating to "A" Excellent. There are only four insurance companies operating in the region who have been awarded this prestigious rating level.

This year saw the opening of the Customer Care Centre on the ground floor of the building that was acquired in 2013. The opening of Island Heritage House was commemorated under the esteemed patronage of The Governor of the Cayman Islands, Helen Kilpatrick with key note remarks provided by The Premier, Alden McLaughlin.

Bermuda Investment Services

BF&M Investment Services Limited ("BFMISL") provides pension investment management and consulting services and is fully licensed with the Bermuda Monetary Authority under the Investment Business Act. The Company provides a full range of investment services and provides clients with a wide range of investment options through their network of manager contacts.

BFMISL continued its support of BF&M's pension products in 2014. The Horizon Pension Product continued to gain market share in Bermuda and the new "Target Date" philosophy of saving for retirement is quickly gaining traction on the island.

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. Leases were signed or are in final stages of signing for all tenants for a five year period. All buildings are fully tenanted.

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. The Company had its best year ever for new business.

An announcement was made in early April 2015 by BF&M that it had disposed of Bermuda International Insurance Services Limited to a third party by way of a merger. The proceeds from this will be used to further strengthen the core domestic Bermuda and Caribbean based insurance and investment advisory operations.

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 2014 were very good, following similar results in 2013.

People and Community

Effective governance is an important foundation for the BF&M Group's strong performance and is fundamental to our continued success. Good governance ensures trust with our stakeholders through oversight and accountability of the principles of best business practice. BF&M has a strong Board of Directors with extensive local and overseas business experience. Their role in strategic planning and good governance is important to promoting the long term interests of our stakeholders.

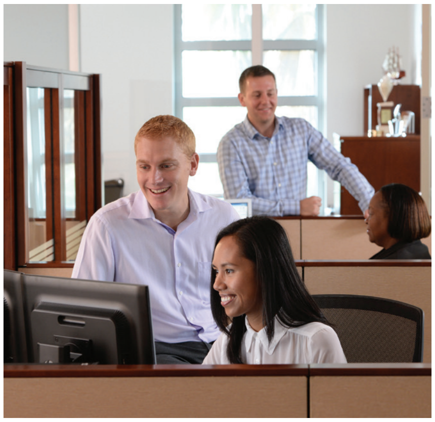
Aaron Smith resigned from the Board of Directors during the year and we thank him for his contributions and wish him well. We were also sad to learn of the passing of Fernance Perry, a longstanding board member who made a tremendous contribution to the Company over many years.

We were delighted that early in 2015 the America's Cup Event Authority and Oracle Team USA selected BF&M to be the Healthcare Provider of the America's Cup 2017. BF&M has a long and distinguished history of giving back to the community and the America's Cup races will be a tremendous opportunity to showcase Bermuda to the world, and we are proud to have been selected to provide the health insurance products and services that a group with such high expectations requires.

BF&M has had another exciting year of steady progress and growth. Much of that is due to the hard work of our management and staff. It therefore seems fair to firstly mention the long service awardees, in respect of Bermuda-based staff, numbering 18 this year with a staggering 230 years of service to the Company, which shows expertise and dedication. We thank them for their commitment to the Company and the customers we serve.

We have a philosophy that encourages investment in insurance study and enhancement in an employee's career with BF&M. As such, many staff choose to study with the LOMA organization, which is an international trade association for the life insurance and financial services industry.


Island
Heritage




Island
Heritage

Following their studies this year, we are delighted to congratulate the following employees for receiving professional designations in 2014:

Fellow, Life Management Institute
Andrew Cormier; Sacha Pedro; Carlyle (Julian) Simmons; Alexander De Campos Guerra

Associate, Life Management Institute
Mark Halpin; James Pereira; Laura Rego; Tiffany Sousa; Kenzie Royal

Associate, Financial Services Institute
Alexander De Campos Guerra

AMA, Certificate in Human Resource Management
Samantha Torak

Associate, Customer Service
James Pereira; Laura Rego; Sevonne Scott; Ayisha Smith; Tiffany Sousa

Associate, Insurance Regulatory Compliance
Andrew Cormier; James Pereira

Underwriting, Life and Health Insurance
Nika Mason; Sacha Pedro

In association with enhancement and advancement, we were also delighted to confirm the following well deserved promotions this year:

Group Chief Information Officer
Paul Matthews
BF&M

Vice President, Life Company Operations
Brian McLeod
BF&M Life

Vice President, IT
Marshall Hamilton
BF&M (Canada)

Assistant Vice President, Life Claims
Jai-Michael Phillips
BF&M Life

Assistant Vice President, Financial Reporting
Robert Shearer
BF&M Limited

Assistant Vice President, Assistant Controller
Jody Power
BF&M (Canada)

They have all shown their worth through example, and we thank them for their hard work and leadership abilities.

2014 also welcomed a number of new employees to our Group Management Team:

Bryan O'Neal, SVP, P&C Strategy and Operations joined the Bermuda office from our Island Heritage office in Cayman to lead the development of the new P&C insurance administration platform across the group. We also relocated Rob Jackson to his new role as VP, Sales and Distribution to our new Bahamas office. Rob was replaced by Felicia Rickards, our new VP, Sales and Client Relations in Bermuda. In addition, we developed a new wellness programme for both clients and employees, and this is now being led by Brenda Dale, our new AVP, Wellness. Each of these managers has already brought their expertise and experience to bear on their respective roles, and we are pleased to welcome them to the BF&M family.

The Company continues to drive standards of excellence across all of our platforms, and in this light, we were honoured to have been awarded the Investors In People Gold award for a second time; the first Bermuda company to have been re-designated at this level.

To further these aims, we were also proud to have again been selected as one of Bottom Line Magazine's 2014 Top Ten Employers in Bermuda, steadily placing in the top ten since the awards began. 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 and represents a true diverse structure of companies.

Whilst we are all about celebrating health and wellness and try to be an industry leader in doing so for both our customers and staff, the wider needs of the Bermuda community are never far from our minds. We realise that many have continued to struggle in this harsh economic climate, and BF&M endeavours

to operate 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 local non-profit organisations.

As has been reported in the past, one of the organisations that we support fully is the Bermuda Cancer and Health Centre ("BCHC"). BF&M has continued its lead sponsorship of the October Breast Cancer Awareness Walk; Cancer Prevention Fair and School Spirit Award, which is now in its 18th year. 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. Last year, BCHC also spearheaded another major fundraising drive with the immensely popular "Relay for Life". BF&M wholly embraced its commitment to this event, being one of major lap sponsors but also demonstrating our happy and healthy team spirit by having one of the most robust corporate presences on the field that weekend. We are always so pleased to see the level of participation, making both these programmes, huge successes. This gives us a meaningful and measurable way in which to support the education and research funding needed by the organisation.

We were very excited to see the opening of the new Acute Wing at the hospital, as we significantly supported the "Why It Matters" campaign. With healthcare so important to us all, and one of our core businesses, we salute the work already achieved to give the island a world-class hospital facility.

Our commitment to youth-based programmes was broadened with donations given to many smaller non-profits covering all forms of exercise and sports based initiatives. Among them were the Under 17 Cricket League, which is organised through the Bermuda Cricket Board to encourage team participation and constructive activity for our young men. As an alternate, we were also pleased to aid in the fundraising for the Under 17 and Senior Bermuda Rugby team tours.

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 and I thank everyone for their community minded spirit and awareness.

Looking Forward

We have a proven track record of delivering to shareholders strong and consistent long term financial results. Our businesses have been stress tested, particularly through the volatility of global investment markets in 2008, prolonged weaknesses in Bermuda and the Caribbean economies since 2009, and two strong hurricanes in Bermuda within a week of each other in 2014. We have demonstrated that we have outperformed our peers and using return on equity as the performance measure, BF&M continues to be the strongest domestic insurance Group in Bermuda and the Caribbean.

Our strategy is to stay the course with a business model that clearly is effective, led by a strong management team, and executed and supported by a very capable and professional staff.

We embrace and look forward to the challenges in 2015 and beyond.

Gavin R. Arton
Chairman

R. John Wight

R. John Wight, CPA, CA, CPCU
President & Chief Executive Officer


STRONG.
PROGRESSIVE.
GROWING.

RESPONSIBILITY FOR FINANCIAL REPORTING
For the year ended 31 December, 2014

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 authorized 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, 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 examined 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 15 April 2015. The Board of Directors has the power to amend these consolidated financial statements after issue, if required.

R. John Wight

R. John Wight, CPA, CA, CPCU
Group President & Chief Executive Officer

Michael White, FIA
Group Chief Financial Officer

pwc

17 April 2015

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 2014 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 2014 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 2014
(in thousands of Bermuda dollars)

	Notes	2014 $	2013 $
Assets			
Cash and cash equivalents	7	53,805	64,002
Fixed deposits	8	2,021	2,015
Regulatory deposits	8	18,231	19,576
Investments	9	660,655	709,873
Insurance receivables and other assets	11	79,910	79,723
Deferred policy acquisition costs	12	10,118	9,936
Reinsurance assets	13	89,211	61,433
Investment properties	14	37,313	38,621
Property and equipment	15	24,585	23,710
Tax recoverable	16	472	676
Intangible assets	17	48,001	46,969
Restricted cash	8	12,996	9,853
Assets held for sale	4	97,661	-
Total general fund assets		**1,134,979**	**1,066,387**
Segregated funds assets	18	628,874	586,791
Total assets		**1,763,853**	**1,653,178**
Liabilities			
Other liabilities	19	69,455	67,191
Deferred tax liability	16	1,135	880
Loans payable	20	1,769	18,141
Retirement benefit obligations	21	4,325	2,230
Investment contract liabilities	22	336,003	333,262
Insurance contract liabilities	23	363,846	372,950
Liabilities held for sale	4	74,152	-
Total general fund liabilities		**850,685**	**794,654**
Segregated funds liabilities	18	628,874	586,791
Total liabilities		**1,479,559**	**1,381,445**
Equity			
Share capital	24	8,652	8,558
Contributed surplus	24	1,482	1,482
Share premium	24	60,303	59,037
Accumulated other comprehensive loss	30	(7,598)	(4,521)
Retained earnings		177,645	163,258
Total shareholders' equity		**240,484**	**227,814**
Non-controlling interests		43,810	43,919
Total equity		**284,294**	**271,733**
Total liabilities and equity		**1,763,853**	**1,653,178**

Approved by the Board of Directors

Gavin R. Arton
Chairman

R. John Wight, CPA, CA, CPCU
President & 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 2014
(in thousands of Bermuda dollars except for per share amounts)

	Notes	2014 $	2013 $
INCOME			
Gross premiums written		338,155	345,491
Reinsurance ceded		(139,327)	(130,435)
Net premiums written		**198,828**	**215,056**
Net change in unearned premiums	23	4,078	(8,231)
Net premiums earned		**202,906**	**206,825**
Investment income (loss)	9	35,265	(10,440)
Commission and other income	25	39,522	39,975
Rental income		4,259	4,286
Total income		**281,952**	**240,646**
EXPENSES			
Insurance contracts benefits and expenses			
Life and health policy benefits	26	121,504	83,774
Short term claim and adjustment expenses	26	27,799	22,185
Investment contract benefits		(2,967)	(4,581)
Paid or credited to policyholder accounts		2,254	1,411
Participating policyholders' net loss (income)		542	(373)
Commission and acquisition expense		33,218	35,191
Operating expenses	27	64,452	61,868
Amortisation expense		7,980	8,250
Interest on loans		442	694
Total benefits and expenses		**255,224**	**208,419**
Income before income taxes		**26,728**	**32,227**
Income taxes	16	(2,018)	(3,696)
Net income for the year		**24,710**	**28,531**
Net income attributable to:			
Shareholders		**21,805**	**25,151**
Non-controlling interests in subsidiaries		2,905	3,380
Net income for the year		**24,710**	**28,531**
Earnings per share			
- Basic	24	$2.53	$2.95
- Fully diluted	24	$2.53	$2.95

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014
(in thousands of Bermuda dollars)

	2014 $	2013 $
Net income for the year after income taxes	24,710	28,531
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Re-measurement of retirement benefit obligations	(3,251)	4,631
Items that may be subsequently reclassified to profit or loss		
Investments classified as available for sale		
Fair value gains	23	290
Currency translation differences	(102)	(56)
	(79)	234
Total other comprehensive (loss) income for the year after income taxes	**(3,330)**	**4,865**
Total other comprehensive (loss) income attributable to:		
Shareholders	(3,077)	4,440
Non-controlling interests in subsidiaries	(253)	425
Total other comprehensive (loss) income for the year after income taxes	**(3,330)**	**4,865**
Comprehensive income	**21,380**	**33,396**
Comprehensive income attributable to:		
Shareholders	18,728	29,591
Non-controlling interests in subsidiaries	2,652	3,805
Comprehensive income	**21,380**	**33,396**

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 16.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014
(in thousands of Bermuda dollars except per share amounts)

	Notes	2014 $	2013 $
Share capital			
Balance - beginning of year		8,558	8,477
Share issuance under employee share purchase plan	24	21	22
Shares issued under equity incentive plan	24	8	16
Share grants issued under equity incentive plan	24	65	43
Balance - end of year		**8,652**	**8,558**
Contributed surplus – beginning and end of year		**1,482**	**1,482**
Share premium			
Balance - beginning of year		59,037	58,484
Share issuance under employee share purchase plan	24	333	345
Shares issued under equity incentive plan	24	125	156
Share grants issued under equity incentive plan	24	1,081	659
Share grants forfeited under equity incentive plan	24	56	-
Deferred share grant	24	(329)	(607)
Balance - end of year		**60,303**	**59,037**
Accumulated other comprehensive loss			
Balance – beginning of year		(4,521)	(8,961)
Other comprehensive (loss) income for the year		(3,077)	4,440
Balance - end of year		**(7,598)**	**(4,521)**
Retained earnings			
Balance - beginning of year		163,258	144,935
Net income for the year		21,805	25,151
Cash dividends		(7,418)	(6,828)
Balance – end of year		**177,645**	**163,258**
Total equity attributable to shareholders of the company		**240,484**	**227,814**
Attributable to non-controlling interests			
Balance - beginning of year		43,919	43,510
Net income for the year		2,905	3,380
Other comprehensive (loss) income for the year		(253)	425
Cumulative adjustment for changes in non-controlling interest percentage		100	-
Shares issued to non-controlling interests		52	-
Cash dividends		(2,913)	(3,396)
Balance – end of year		**43,810**	**43,919**
Total equity		**284,294**	**271,733**

The dividends paid in 2014 and 2013 were $7,418 ($0.86 per share) and $6,828 ($0.80 per share) respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014
(in thousands of Bermuda dollars)

	2014 $	2013 $
Cash flows from operating activities		
Income before income taxes	26,728	32,227
Adjustments for:		
Investment income	(22,306)	(24,453)
Net realised loss on investments	225	1,171
Change in fair value of investments	(20,491)	21,618
Unrealised gain on investments allocated to insurance contracts	(2,553)	(945)
Provision for losses on investments	1,917	4,373
Amortisation of property and equipment	2,030	1,949
Amortisation of investment properties	907	923
Amortisation of intangible assets	5,043	4,895
Impairment of available-for-sale investments	247	-
Impairment of investment properties	522	1,191
Impairment of intangible assets	-	443
Loss on sale of property and equipment	50	127
Interest on loan	442	694
Compensation expense related to shares and options	1,094	1,377
Changes in assets and liabilities:		
Restricted cash	(3,143)	(3,803)
Regulatory deposits	1,345	(7,692)
Cash in assets held for sale	(6,123)	-
Insurance receivables and other assets	1,639	5,773
Deferred policy acquisition costs	(182)	219
Reinsurance assets	(12,450)	11,984
Insurance contract liabilities	64,096	(4,695)
Investment contract liabilities	2,741	15,345
Other liabilities	3,216	(1,117)
Retirement benefit obligations	(1,156)	(3,458)
Cash generated from operations	**43,838**	**58,146**
Income taxes paid	(1,559)	(1,097)
Interest and dividends received	20,898	22,261
Net cash generated from operating activities	**63,177**	**79,310**
Cash flows from investing activities		
Purchase of investments	(303,566)	(251,115)
Proceeds from sales of investments	266,196	202,479
Acquisition of property and equipment	(3,570)	(11,511)
Purchase of fixed deposit	(6)	(15)
Proceeds from sales of property and equipment	615	23
Acquisition of investment properties	(121)	(141)
Acquisition of intangible assets	(6,093)	(4,512)
Net cash (used for) investing activities	**(46,545)**	**(64,792)**
Cash flows from financing activities		
Cash dividends paid	(7,418)	(6,828)
Interest paid	(442)	(658)
Loans repaid	(16,372)	(7,716)
Cash dividends paid to non-controlling interest	(2,761)	(3,396)
Cash proceeds on issue of common shares	266	202
Net cash (used for) financing activities	**(26,727)**	**(18,396)**
Effect from changes in exchange rates	(102)	(56)
Decrease in cash and cash equivalents	(10,197)	(3,934)
Cash and cash equivalents - beginning of year	64,002	67,936
Cash and cash equivalents - end of year	**53,805**	**64,002**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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
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")	51.4	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
Island Heritage Insurance Company, Ltd	100	Cayman Islands
I.H. Americas Insurance Company	100	Puerto Rico
Island Heritage Insurance Company, Ltd. NV.	100	Netherlands Antilles
Lawrence Boulevard Holdings Limited	100	Cayman Islands

*ICBL owns 72.35% of ICBLJV and controls the operations of the entity.

During 2014, the Group wound up and dissolved several subsidiaries which included Marchmont Insurance Company Limited, CRS Holdings Ltd, Island Heritage (Latin America) Holdings Inc. and Island Heritage Insurance AI. All were 100% owned by the Group.

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

On 15 April 2015, 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").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amount of the asset or liability affected. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

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

- The actuarial assumptions used in the valuation of insurance and investment contract liabilities under the Canadian Asset Liability Method ("CALM"). Key assumptions and considerations in choosing assumptions are discussed in Note 2N and sensitivities are discussed in Note 5B and 23.
- The estimate of the ultimate liability arising from claims under short-term insurance contracts. Refer to Note 5B.
- In the assessment of the fair value of financial instruments, the Group's management exercises judgment in the fair value of inputs, particularly those items categorized within level 3 of the fair value hierarchy. Refer to Note 10.
- The assessment of the carrying value of goodwill and intangible assets relies upon the use of forecasts and future results. Refer to Note 2L and Note 17.
- The actuarial assumptions used in determining the liability and expense of the Group's retirement benefit obligations. Refer to Note 21.
- Management uses independent qualified appraisal services to assist in determining the fair value of investment properties or properties held as collateral for mortgages. This fair value assessment requires judgements and estimates on future cash flows and general market conditions. Refer to Note 14.

C. CONSOLIDATION

i) Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date control is transferred to the Group and deconsolidated on the date control ceases.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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 or losses on transactions between group companies are eliminated on consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

ii) Transactions with non-controlling interest

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

D. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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.

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

Restricted cash and cash equivalents consists of cash being held on account of various pension plans and cash held on account for dividends issued but not collected to satisfy regulatory requirements. These amounts are not available for use in the Group's daily operations and therefore excluded in the statement of cash flows.

G. FIXED AND REGULATORY DEPOSITS

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

i) Financial assets

Classification, recognition and subsequent measurements of financial assets

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

a) FVTPL

A financial asset is classified at FVTPL if it is designated as such upon initial recognition or is classified as held-for-trading. A financial asset can be designated as FVTPL if it eliminates or significantly reduces an accounting mismatch. A financial asset is classified as held-for-trading if it is acquired mainly for the purpose of selling in the near term or traded for the purposes of earning investment income. Attributable transaction costs upon initial recognition are recognised in investment income 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.

b) Held-to-maturity financial assets

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

c) 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.

d) 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. 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.

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.

ii) Financial liabilities

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

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

b) Other financial liabilities
All remaining financial liabilities are classified as other financial liabilities which include certain investment contract liabilities incepted in Barbados, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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. For all loans and receivables where an impairment loss has occurred, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of income. When an event occurring after the impairment was recognised 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 estimated using 1) the income approach to estimate the present value of discounted projected future cash flows using current rental values, assessed rental values or market rental values at a market discount rate; or 2) determined having regard to recent market transactions for similar properties in similar locations or where such information is not readily available, other valuation techniques such as the income capitalisation model are used.

The 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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 was initially measured at fair value at the date of acquisition. The brand was determined to have an indefinite life because there is no foreseeable limit to the cash flows generated by these intangible assets, nor plans for rebranding, due to the strength of the brand . 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. ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when a sale is highly probable and the assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sales of non-current assets and disposal groups. For a sale to be highly probable management must be committed to sell the non-current asset or disposal group within one year from the date of classification as held for sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Certain assets are specifically excluded from these measurement requirements. The assets in this category which are applicable to the Company include financial assets, investment properties and insurance and reinsurance assets. These exempt assets are measured in accordance with the relevant accounting policies described within the notes to these consolidated financial statements. The disposal group as a whole is then measured to the lower of its carrying amount and fair value less cost to sell. Any impairment loss for the disposal group is recognised as a reduction to the carrying amount of the non-current assets in the disposal group that are in scope of the measurement requirements.

Assets and liabilities in a disposal group classified as held for sale are presented separately in the consolidated statements of financial position.

N. INSURANCE AND INVESTMENT CONTRACTS

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

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

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

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

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

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

a) 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.

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

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

c) 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 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.

d) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed on short-term insurance contracts to ensure the adequacy of the contract liabilities net of related 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

ii) Investment contracts

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

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

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

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

Liabilities for investment contracts have been designated at fair value through profit and loss ("FVTPL"), except for certain contracts in Barbados that are 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. Changes in investment contract liabilities are recorded as a change in investment contract benefits expense in the consolidated statement of income. These liabilities are derecognised when the obligation of the contract is discharged, cancelled or expired.

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

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

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

O. 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 18.

P. LOANS TO POLICYHOLDERS

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

Q. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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.

R. 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 net liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the financial reporting period less the fair value of plan assets. When the calculation results in a surplus, the asset recognised is limited to the present value of the future economic benefit available in the form of future refunds from the plan or reductions in future contributions to the plan (the asset limit). The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market interest rates of high-quality debt instruments.

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

ii) Other post-employment obligations

In addition to pension benefits, the Group 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. 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 24 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 fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to share capital and share premium with a corresponding charge to operating expenses.

iv) Employee share purchase plan

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.

S. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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.

T. LEASES

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

Where the Group is the lessor under an operating lease for its investment properties, lease arrangements are fixed and income is 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.

U. 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.

V. 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.

W. 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.

3. NEW AND REVISED ACCOUNTING STANDARDS

A. NEW AND REVISED ACCOUNTING STANDARDS ADOPTED IN 2014

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 2014.

Interpretations:

Levies ("IFRIC 21")

Amendments to:

IFRS 10 Consolidated Financial Statements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements

IAS 32 Offsetting Financial Assets and Financial Liabilities

IAS 36 Impairment of Assets

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The adoption of the new and revised standards did not have a significant impact on the Group's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

B. NEW AND REVISED ACCOUNTING STANDARDS TO BE ADOPTED IN 2015 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 2015 or later.

IAS 19 – Employee Benefits – Amendments to this standard were issued in November 2013 and are effective for periods beginning on or after 1 July 2014. The narrow scope amendments clarify the accounting for contributions by employees or third parties to defined benefit plans. These amendments are not expected to have a significant impact on the Group's financial statements.

IAS 1 – Presentation of Financial Statements – Amendments to this standard were issued in December 2014 and are effective for years beginning on or after 1 January 2016. The amendments clarify existing requirements relating to materiality and aggregation, along with presentation and note structure. These amendments are not expected to have a significant impact on the Group's financial statements.

IFRS 11 – Joint Arrangements – Amendments to this standard were issued in May 2014 and is to be applied prospectively in periods beginning on or after 1 January 2016. The amendment provides guidance on accounting for acquiring interests in joint operations where the activity represents a business. The standard now requires accounting and disclosure as a business combination in accordance with IFRS 3 – Business Combinations. These amendments are not expected to have a significant impact on the Group's financial statements.

IAS 16 – Property, plant and equipment and IAS 38 – Intangible Assets – Amendments to these standards were issued in May 2014 are to be applied prospectively beginning on or after 1 January 2016. The amendments clarify acceptable methods of depreciation and amortisation and require a method that reflects consumption of the economic benefit rather than the revenue generated and prohibits revenue based methods. These amendments are not expected to have a significant impact on the Group's financial statements.

IAS 27 – Separate Financial Statements – Amendments to this standard were issued in August 2014 and are effective for periods beginning on or after 1 January 2016. The amendments require that upon loss of control of a subsidiary during its transfer to an associate or joint venture, full gain recognition is appropriate only if the subsidiary constitutes a business as defined in IFRS 3 – Business Combinations. Otherwise gain or loss recognition is only to the extent of the unrelated investors' interests. These amendments are not expected to have a significant impact on the Group's financial statements.

IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint ventures – Amendments to this standard were issued in September 2014 and are effective for periods beginning on or after 1 January 2016 and require investments in subsidiaries, joint ventures and associates to be either accounted for at cost or at fair value in accordance with IAS 39. These amendments are not expected to have a significant impact on the Group's financial statements.

IFRS 15 – Revenue Recognition – This standard was issued in May 2014 and applies to new contracts created on or after 1 January 2017 and to existing contracts not yet complete at that date. The standard applies a single standard to all contracts with customers except lease and insurance contracts, financial instruments and non-monetary exchanges between parties in the same line of business. The standard says that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled in exchange for those goods and services. The Group is currently assessing the impact of IFRS 15.

IFRS 9 - Financial Instruments ("IFRS 9") – In July 2014 the final version of IFRS 9 was issued. It replaces the guidance in IAS 39. The standard provides guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. It requires financial assets to be measured at fair value through OCI, fair value through profit and loss or amortised cost while eliminating the existing categories of available-for-Sale, held to maturity and loans and receivables. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The effective date is for annual periods beginning after 1 January 2018. The amendments also provide relief from the requirements to restate comparative financial statements. The Group is currently assessing the impact of IFRS 9.

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

4. ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE

In November 2014, management committed to a plan to dispose of a subsidiary which specializes in insurance to international high net worth individuals. Subsequent to year-end, the Group entered into a definitive arrangement to dispose of the business via a merger, conditional on customary due diligence. The transaction is subject to regulatory approval and other closing conditions.

The assets and liabilities of the disposal group are comprised almost entirely of financial assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations and are therefore measured according to other relevant standards. The consideration for the merger, which will be paid by the surviving company, is equal to one hundred percent of the net carrying value of assets less liabilities of the disposal group classified as held for sale as at 31 December 2014, less a return of contributed surplus to occur prior to the closing date and less $450 as consideration for activities expected to occur during the first quarter of 2015. Consideration in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

the amount of $7,670 is expected to be received, however $357 of the consideration is conditional on an actuarial review of the insurance contract reserves to determine the adequacy of the reserves held. Where reserves held are confirmed to be less than or equal to the carrying value of the reserve, no adjustment will be made to the consideration. Where there is a difference between assessed reserves and the carrying value of reserves, an adjustment will be made. No material gain or loss on disposal is expected to be reported during 2015.

This subsidiary is included within our health, life, annuity and pension (Bermuda) reporting segment. The operations and cash flows of this subsidiary can be clearly distinguished, operationally and for financial reporting purposes. However, while separate, it does not represent a major line of business for the group and as a result has not been separately disclosed as discontinued operations within the consolidated statement of income.

The composition of the assets and liabilities of the disposal group classified as held for sale included in the consolidated statement of financial position as at 31 December, 2014 are as follows:

	2014 $
Assets	
Cash and cash equivalents	6,123
Investments	106,049
Insurance receivables and other assets	799
Reinsurance assets	(15,328)
Intangible assets	18
TOTAL Assets of disposal group classified as held for sale	**97,661**
Liabilities	
Other liabilities	952
Insurance contract liabilities	73,200
TOTAL Liabilities of disposal group classified as held for sale	**74,152**

The carrying amount and fair value of the investments are as follows:

	2014	
	Carrying amount $	Fair value $
At fair value through profit and loss		
- Bonds and fixed income securities*	78,013	78,013
- Equities*	18,714	18,714
- Derivatives*	773	773
Loans and receivables		
- Policyholder loans	2,900	2,900
- Mortgages	5,649	5,711
TOTAL	**106,049**	**106,111**

*Included within certain investments are assets that back private placement insurance contracts. These assets are 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:

	Carrying amount $	Fair value $
Bonds and fixed income securities	9,415	9,415
Equity / Mutual funds/ Derivatives	19,486	19,486
TOTAL	**28,901**	**28,901**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

The following table presents the disposal group's assets measured at fair value in the consolidated statement of financial position, categorized by level under the fair value hierarchy:

31 December 2014	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at FVTPL				
Bonds and fixed income securities	12,594	65,419	-	78,013
Equities	11,561	7,152	-	18,713
Derivatives	-	773	-	773
TOTAL Assets	**24,155**	**73,344**	**-**	**97,499**

During the year there were no transfers between Levels 1, 2 or 3.

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

31 December 2014	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Loans and receivable financial assets				
Mortgages	-	-	5,711	5,711
Policyholder loans	-	-	2,900	2,900
TOTAL Assets	**-**	**-**	**8,611**	**8,611**

5. 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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, unless required by local law or regulation;
- Investment guidelines specify collateral requirements for mortgages and loans and receivables which include the underlying property or other security; and
- Transacting business with well-established reinsurance companies with strong credit ratings.

Maximum exposure to credit risk
The following table summarises the Group's maximum exposure to credit risk related to financial assets. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2014 $	**2013 $**
Cash and cash equivalents	53,805	64,002
Fixed and regulatory deposits	20,252	21,591
Bonds and fixed income securities	537,490	562,880
Derivatives	-	823
Mortgages and loans	98,080	100,771
Insurance receivables and other assets	79,910	79,723
Reinsurance assets	89,211	61,433
TOTAL	**878,748**	**891,223**

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:

	2014 $	**2013 $**
Bonds and fixed income securities issued or guaranteed by:		
Financials	107,432	91,700
Government	107,181	119,221
U.S. Treasury and other agencies	121,568	161,196
Utilities and energy	87,586	64,714
Consumer staples and discretionary	57,678	56,928
Telecom	11,231	19,900
Computer technology products and services	12,962	15,639
Industrials	16,966	15,388
Other	14,886	18,194
TOTAL Bonds and fixed income securities	**537,490**	**562,880**
United States	380,600	356,927
Barbados	92,470	102,406
Canada	42,514	39,478
Northern Europe	5,536	24,676
Asia-Pacific	1,176	9,646
United Kingdom	451	11,311
Caribbean excluding Barbados	13,063	15,243
Other	1,680	3,193
TOTAL Bonds and fixed income securities	**537,490**	**562,880**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

	2014 $	2013 $
Bermuda	91,277	96,842
Barbados	6,803	3,929
TOTAL Mortgages and loans	**98,080**	**100,771**

Credit quality of bonds and fixed income securities
The credit quality of financial assets are assessed quarterly by reference to external credit ratings if available or review of historical and current conditions that existed at the balance sheet date.

The following tables summarizes the carrying value of bonds and fixed income securities by external credit rating.

	2014 $	2013 $
Bonds and fixed income securities ratings:		
AAA	31,293	29,248
AA	218,841	236,566
A	173,250	167,580
BBB	25,064	28,077
BB and lower	74,760	83,205
Not rated*	14,282	18,204
TOTAL Bonds and fixed income securities	**537,490**	**562,880**

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

Past due or credit impaired financial assets
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. Management exercises judgment in assessing a borrower's ability to meet current and future contractual interest and principal payments including assessing the current financial position of the borrower and the value of the collateral.

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

	2014 $	2013 $
Not past due	76,254	73,670
Past due but not impaired:		
Past due less than 90 days	7,033	9,725
Past due 90 to 180 days	1,329	-
Past due 180 days or more	36	2,170
Impaired (net of impairment provisions)	13,428	15,206
TOTAL Mortgages and loans	**98,080**	**100,771**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

Interest accrued on the impaired mortgages amounted to $3,392 as at 31 December 2014 (2013 - $2,673).

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

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

	2014 $	2013 $
At 1 January	10,292	5,919
Transfer to available for sale residential properties	(19)	-
Increase in impairment and provision allowances	1,917	4,373
TOTAL At 31 December	**$12,190**	**10,292**

A significant estimate in the determination of impairment is the timing of future collections, which is based on the expected timing of liquidating the underlying collateral. Management estimates that collection will occur within 12 months. An additional impairment of between $607 and $1,016 could be incurred if collection occurred within 18-24 months.

ii) Liquidity risk

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

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

The maturity profile of financial assets at 31 December 2014 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	1.56% - 2.06%
Policyholder loans	188	376	376	2,818	3,758	4.75% - 8.25%
Mortgages	12,334	9,784	8,858	59,859	90,835	3.50% - 9.00%
Bonds and fixed income securities	61,402	146,809	158,929	170,350	537,490	0.20% - 9.75%
Insurance receivables and other assets	78,367	501	415	627	79,910	-
Reinsurance assets	89,211	-	-	-	89,211	-
Total	**244,989**	**157,470**	**168,578**	**233,654**	**804,691**	
Percent of total	**30.4%**	**19.6%**	**20.9%**	**29.0%**	**100.0%**	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

The maturity profile of financial assets at 31 December 2013 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	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	0.13%-10.75%
Insurance receivables and other assets	79,723	-	-	-	79,723	-
Reinsurance assets	61,433	-	-	-	61,433	-
TOTAL	**225,131**	**232,115**	**99,048**	**248,513**	**804,807**	
Percent of total	**28.0%**	**28.8%**	**12.3%**	**30.9%**	**100.0%**	

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

The maturity profile of liabilities at 31 December 2014 is as follows:

	Within 1 year $	1-5 years $	Over 5 years $	Total $
Other liabilities	69,455	-	-	69,455
Loans payable	542	1,227	-	1,769
Investment contract liabilities	94,402	241,173	428	336,003
Insurance contract liabilities – net of reinsurance	110,987	6,291	157,357	274,635
TOTAL	**275,386**	**248,691**	**157,785**	**681,862**

The maturity profile of liabilities at 31 December 2013 was 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 – net of reinsurance	107,624	7,538	196,355	311,517
TOTAL	**220,570**	**266,530**	**243,011**	**730,111**

iii) Market risk

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

Currency risk

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

- The majority of the Group's assets, liabilities, and earnings are denominated in Bermuda, Barbados, Cayman, Bahamian or United States dollars;
- The Bermuda, Barbados, Cayman and Bahamian dollars are pegged to the United States dollar;
- The Bermuda dollar is at par with the United States dollar; and
- The Group's Canadian operation is fully integrated. Its assets and liabilities are not considered material.

The Group regularly monitors currency translation fluctuations. Generally, the Group looks to match the currency of its local assets to the currency of the local liabilities they support or to the United States dollar as the currency of the liabilities is generally pegged to the United States dollar. This achieves the objective of mitigating risk of loss arising from movements in currency. Policies written in currencies that are not pegged to the United States dollar are not material and the Group considers the currency risk minimal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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 5 B - Insurance Risk below. The Group also holds fixed income investments which support non-life insurance liabilities and surplus. If the base interest rates, as measured by the US Treasury yield curve, shifted parallel by 100 basis points higher/lower, the immediate impact to net income would have been $1,837 (2013 - $1,102) lower/higher. 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 $964 (2013 - $1,075) and the Group's other components of equity by $214 (2013 - $229). 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 the Group level.

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

The Board of Directors considers the reinsurance coverage across the life and health businesses. It confirms that guidance and procedures are in place for each of the major components of 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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 the Group 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.
- 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.

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

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

	2014			2013		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Bermuda	171,629	(1,164)	170,465	152,078	821	152,899
Bahamas	2,511	392	2,903	1,674	192	1,866
Barbados	7,014	(388)	6,626	5,075	82	5,157
Other Caribbean & Latin America	3,712	-	3,712	5,084	-	5,084
Other*	(3,903)	3,903	-	49,213	8,657	57,870
Total	**180,963**	**2,743**	**183,706**	**213,124**	**9,752**	**222,876**

* 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 $157 (2013 - $166). 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 $292 (2013 - $231).

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 $818 (2013 - $880).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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 $7,287 (2013 - $2,601). 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 $8,990 (2013 - $4,371).

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 $1,978 (2013 - $1,825).

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 $1,428 (2013 - $1,223).

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 comprise a provision for claims incurred but not yet reported ("IBNR"), a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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.

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

Significant reinsurance programmes are reviewed annually at both the business unit and Group level, to verify that the levels of protection being purchased reflect any developments in exposure and the risk appetite of the Group. The reinsurance arrangements include 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 2014

Territory		Property $	Motor $	All Other $	Total $
Bermuda					
	Gross	24,424	5,133	6,508	36,065
	Net	5,335	4,007	1,557	10,899
Cayman/Other Caribbean					
	Gross	4,236	2,473	1,697	8,406
	Net	1,934	970	453	3,357
Barbados					
	Gross	2,431	44,367	6,649	53,447
	Net	473	31,233	4,973	36,679
Total	**Gross**	**31,091**	**51,973**	**14,854**	**97,918**
	Net	**7,742**	**36,210**	**6,983**	**50,935**

31 December 2013

		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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

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

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

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

Claims development tables
The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group's estimate of total claims outstanding for each accident 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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** **$**	**2014** **$**	**Total** **$**
At the end of accident year*	6,494	10,067	8,413	9,760	17,992	7,024	7,404	38,794	
One year later	6,483	9,680	8,409	9,825	18,403	7,222	12,451	-	
Two years later	6,197	9,654	9,142	9,583	18,355	6,857	-	-	
Three years later	6,156	9,924	9,158	9,812	17,324	-	-	-	
Four years later	6,133	9,811	9,045	10,167	-	-	-	-	
Five years later	6,118	9,669	8,996	-	-	-	-	-	
Six years later	6,310	12,681	-	-	-	-	-	-	
Seven years later	6,305	-	-	-	-	-	-	-	
Current estimates of cumulative claims	6,305	12,681	8,996	10,167	17,324	6,857	12,451	38,794	113,575
Cumulative payments to date	(6,240)	(9,561)	(8,771)	(9,605)	(16,074)	(6,069)	(7,932)	(13,902)	(78,154)
Gross Liability recognised in the consolidated statement of financial position	65	3,120	225	562	1,250	788	4,519	24,892	35,421
Reserve in respect of prior years									644
TOTAL reserve included in the consolidated statement of financial position									**36,065**

Net loss development:

Underwriting year **Estimate of ultimate claims cost:**	**2007** **$**	**2008** **$**	**2009** **$**	**2010** **$**	**2011** **$**	**2012** **$**	**2013** **$**	**2014** **$**	**Total** **$**
At the end of accident year*	4,936	6,714	6,128	5,635	6,414	5,480	5,595	9,901	
One year later	4,929	6,581	6,190	5,743	6,825	5,676	7,567	-	
Two years later	4,758	6,376	6,789	5,478	6,763	5,327	-	-	
Three years later	4,728	6,811	6,657	5,786	6,761	-	-	-	
Four years later	4,703	6,651	6,615	6,120	-	-	-	-	
Five years later	4,669	6,534	6,572	-	-	-	-	-	
Six years later	4,819	6,606	-	-	-	-	-	-	
Seven years later	4,815	-	-	-	-	-	-	-	
Current estimates of cumulative claims	4,815	6,606	6,572	6,120	6,761	5,327	7,567	9,901	53,669
Cumulative payments to date	(4,766)	(6,591)	(6,348)	(5,592)	(6,474)	(4,757)	(5,007)	(3,455)	(42,990)
Net Liability recognised in the consolidated statement of financial position	49	15	224	528	287	570	2,560	6,446	10,679
Reserve in respect of prior years									220
TOTAL reserve included in the consolidated statement of financial position									**10,899**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

Barbados and Cayman Islands

Gross loss development:

Underwriting year **Estimate of ultimate claims cost:**	**2007** **$**	**2008** **$**	**2009** **$**	**2010** **$**	**2011** **$**	**2012** **$**	**2013** **$**	**2014** **$**	**Total** **$**
At the end of accident year*	47,913	44,908	22,353	26,877	34,614	30,172	26,301	26,749	
One year later	47,593	42,667	22,666	24,934	32,074	27,160	26,474	-	
Two years later	43,334	38,785	21,600	23,094	31,670	26,607	-	-	
Three years later	41,688	38,169	20,974	22,243	30,776	-	-	-	
Four years later	42,044	36,819	20,913	22,409	-	-	-	-	
Five years later	41,195	36,739	20,588	-	-	-	-	-	
Six years later	40,662	36,689	-	-	-	-	-	-	
Seven years later	40,531	-	-	-	-	-	-	-	
Current estimates of cumulative claims	40,531	36,689	20,588	22,409	30,776	26,607	26,474	26,749	230,823
Cumulative payments to date	(32,094)	(34,800)	(16,594)	(19,161)	(26,044)	(20,531)	(16,650)	(11,016)	(176,890)
Gross Liability recognised in the consolidated statement of financial position	8,437	1,889	3,994	3,248	4,732	6,076	9,824	15,733	53,933
Reserve in respect of prior years									7,920
TOTAL reserve included in the consolidated statement of financial position									**61,853**

Net loss development:

Underwriting year **Estimate of ultimate claims cost:**	**2007** **$**	**2008** **$**	**2009** **$**	**2010** **$**	**2011** **$**	**2012** **$**	**2013** **$**	**2014** **$**	**Total** **$**
At the end of accident year*	33,093	17,487	15,384	16,005	15,895	16,057	17,096	17,004	
One year later	30,487	17,299	14,451	14,375	15,052	15,093	16,836	-	
Two years later	27,042	14,409	13,357	13,522	15,619	14,914	-	-	
Three years later	26,908	13,305	12,550	13,419	15,194	-	-	-	
Four years later	26,269	12,582	12,497	13,618	-	-	-	-	
Five years later	26,341	12,219	12,192	-	-	-	-	-	
Six years later	25,903	12,319	-	-	-	-	-	-	
Seven years later	25,292	-	-	-	-	-	-	-	
Current estimates of cumulative claims	25,292	12,319	12,192	13,618	15,194	14,914	16,836	17,004	127,369
Cumulative payments to date	(22,635)	(10,948)	(10,319)	(11,109)	(11,587)	(10,226)	(10,612)	(7,074)	(94,510)
Net Liability recognised in the consolidated statement of financial position	2,657	1,371	1,873	2,509	3,607	4,688	6,224	9,930	32,859
Reserve in respect of prior years									7,177
TOTAL reserve included in the consolidated statement of financial position									**40,036**

Total reserves included in the consolidated statement of financial position:	**Total** **$**
Gross	
Bermuda	36,065
Barbados and Cayman Islands	61,853
TOTAL*	**97,918**
Net	
Bermuda	10,899
Barbados and Cayman Islands	40,036
TOTAL*	**50,935**

*Does not include unearned premium or claims payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

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

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"). 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 2014 shall be 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 $5,854 (2013 - $4,964) 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 $17,652 as at 2014 (2013 - $17,440) is included in ICBL's shareholders' equity in accordance with the requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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. 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 on a risk basis 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 2014 and 2013, 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. Funding was provided during 2014 and as at 31 December 2014, all requirements have been met.

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.

6. 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.

Health, life, annuity and pension (Bermuda)

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

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.

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.

Barbados operations

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

Cayman Islands and other Caribbean operations

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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 2014 is as follows:

Segments	Health, life, annuity, and pension 2014 $	Property and casualty 2014 $	Real estate 2014 $	Barbados operations 2014 $	Cayman and other Caribbean operations 2014 $	Corporate and other 2014 $	Total 2014 $
Income earned from external customers	126,708	27,292	3,061	43,557	46,016	53	246,687
Investment income	30,682	397	-	3,660	523	3	35,265
Total income	157,390	27,689	3,061	47,217	46,539	56	281,952
Insurance contracts benefits and expenses	112,690	12,215	-	20,533	3,865	-	149,303
Commission and acquisition expense	6,537	2,613	-	4,437	19,631	-	33,218
Operating expenses	25,913	11,125	581	16,101	10,582	150	64,452
Amortisation expense	1,641	1,251	826	1,458	566	2,238	7,980
Interest on loans	-	-	99	-	-	343	442
Income tax expense	-	-	-	660	1,037	321	2,018
Shareholders' net income	8,339	1,431	1,577	2,021	10,619	(2,182)	21,805
Impairment losses recognised in income *	2,164	-	-	522	-	-	2,686
Assets (excluding held for sale)	1,174,290	106,715	24,580	214,763	123,033	22,811	1,666,192
Assets held for sale	97,661	-	-	-	-	-	97,661
Fixed asset & intangible expenditures	4,174	2,122	14	1,463	1,348	542	9,663
Liabilities (excluding held for sale)	1,109,822	80,748	2,812	140,507	71,948	(430)	1,405,407
Liabilities held for sale	74,152	-	-	-	-	-	74,152

*The table below summarizes impairment losses by asset type:

Segments	Health, life, annuity, and pension 2014 $	Property and casualty 2014 $	Real estate 2014 $	Barbados operations 2014 $	Cayman and other Caribbean operations 2014 $	Corporate and other 2014 $	Total 2014 $
Mortgages	1,917	-	-	-	-	-	1,917
Available-for-sale investments	247	-	-	-	-	-	247
Investment properties	-	-	-	522	-	-	522
TOTAL	**2,164**	**-**	**-**	**522**	**-**	**-**	**2,686**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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	-	3,225	817	1	(10,440)
Total income	114,203	30,035	3,031	44,030	49,346	1	240,646
Insurance contracts benefits and expenses	77,936	6,927	-	17,109	3,987	-	105,959
Commission and acquisition expense	5,612	3,727	-	3,729	22,473	-	35,191
Operating expenses	22,872	11,886	567	14,710	10,216	1,617	61,868
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*	4,597	219	-	1,505	-	-	6,321
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

*The table below summarizes impairment losses by asset type:

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 $
Mortgages	4,373	-	-	-	-	-	4,373
Available-for-sale investments	-	-	-	313	-	-	313
Investment properties	-	-	-	1,192	-	-	1,192
Intangible assets	224	219	-	-	-	-	443
TOTAL	**4,597**	**219**	**-**	**1,505**	**-**	**-**	**6,321**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

7. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at bank and in hand	46,594	50,289
Short-term bank deposits	7,211	13,713
Total	**53,805**	**64,002**

8. REGULATORY DEPOSITS, FIXED DEPOSITS AND RESTRICTED CASH

	2014 $	2013 $
Regulatory deposits	18,231	19,576
Fixed deposit	2,021	2,015
Restricted cash	12,996	9,853
TOTAL	**33,248**	**31,444**

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 4 May 2015, and earns interest of 0.25% per annum.

Restricted cash represents funds held in trust for and on behalf of policyholders of certain pension plans in Barbados. The liabilities of these pension plans are reported in the Group's consolidated financial statements as investment contracts. Restricted cash includes cash in hand, deposits held on call with banks and other short-term highly liquid financial assets with original maturities of less than three months. The carrying value of restricted cash approximates its fair value.

9. INVESTMENTS

A. CARRYING AMOUNT AND FAIR VALUE OF INVESTMENTS

Investments comprise:

	2014		2013	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
At fair value through profit and loss				
- Bonds and fixed income securities*	432,885	432,885	450,543	450,543
- Equities*	19,275	19,275	40,321	40,321
- Derivatives*	-	-	823	823
Held-to-maturity				
- Bonds and fixed income securities	9,846	10,936	7,493	7,610
Loans and receivables				
- Other loans	3,487	3,487	3,487	3,487
- Policyholder loans	3,758	3,758	4,342	4,342
- Mortgages	90,835	90,283	92,942	93,785
- Bonds and fixed income securities	94,759	102,266	104,844	113,664
	654,845	**662,890**	**704,795**	**714,575**
Available for sale				
- Equities	4,280	4,280	4,590	4,590
- Residential properties	1,530	1,530	488	488
	5,810	5,810	5,078	5,078
TOTAL	**660,655**	**668,700**	**709,873**	**719,653**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

*Included within certain investments are assets that back private placement insurance contracts. These assets are 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. There are no comparative figures for 2014 as these assets are now included within Assets Held For Sale under Note 4. These assets comprise:

	2014		2013	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Bonds and fixed income securities	-	-	8,252	8,252
Equity / Mutual funds/ Derivatives	-	-	19,580	19,580
TOTAL	**-**	**-**	**27,832**	**27,832**

Included in the investments balance of $660,655 (2013 - $709,873) is $40,329 (2013 - $37,348) which has been pledged to meet the requirements of Section 25(5) of the Barbados Insurance Act 1996-32, $999 (2013 - $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.

B. INVESTMENT (LOSS) INCOME

	2014 $	2013 $
Interest income		
Bonds and fixed income securities - at FVTPL	10,323	10,389
Bonds and fixed income securities - at amortised cost	6,682	7,197
Mortgages and loans	5,469	5,700
Bank deposits and policyholder loans	460	634
	22,934	23,920
Dividend income		
Equities - at FVTPL	533	451
Equities - at available for sale	58	82
	591	533
Net realised gains/(losses) on sale of investments		
Equities - at FVTPL	422	462
Bonds and fixed income securities - at FVTPL	(647)	(1,320)
Equities – available for sale	-	(313)
	(225)	(1,171)
Change in fair value arising from		
Bonds and fixed income securities	21,145	(21,945)
Equities	(654)	327
	20,491	(21,618)
Impairments and deductions		
Less: Impairment provision on mortgages and loans	(1,917)	(4,373)
Less: Impairment loss on available for sale assets	(247)	-
Less: Impairment loss on investment properties	(522)	(1,192)
Less: Allocation to contracts for the account and risk of customers	(5,840)	(6,539)
	(8,526)	(12,104)
TOTAL Investment income	**35,265**	**(10,440)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

10. 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. When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and inputs. Broker quotes are typically used when external public vendor prices are not available. Judgment is also applied in adjusting external observable data for items including liquidity and credit factors.

The Group categorizes 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.

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

i) Financial instruments in Level 1

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

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

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

iii) 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. Less than 1% of assets are measured at fair value using estimates and recorded as level 3. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models using market observable data where possible. A transfer from level 2 to level 3 would occur primarily due to decreased observability of inputs in valuation methodology. Conversely, transfers out of level 3 would primarily occur due to increased observability of inputs.

A. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

31 December 2014	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at FVTPL				
Bonds and fixed income securities	120,227	312,658	-	432,885
Equities	14,309	4,966	-	19,275
Available for sale financial assets				
Equities	1,368	2,912	-	4,280
Residential properties	-	-	1,530	1,530
Segregated fund assets	460,161	168,713	-	628,874
TOTAL assets	**596,065**	**489,249**	**1,530**	**1,086,844**
Liabilities				
Investment contract liabilities	-	281,544	-	281,544
Segregated fund liabilities	-	628,874	-	628,874
TOTAL liabilities	**-**	**910,418**	**-**	**910,418**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

31 December 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets FVTPL				
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	2,175	2,415	-	4,590
Residential properties	-	-	488	488
Segregated fund assets	418,347	168,444	-	586,791
TOTAL assets	**628,531**	**454,537**	**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**

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

The following table presents the change in Level 3 instruments for the year ended 31 December 2014:

	Total $
At 1 January 2014	488
Transfers into / (out) of Level 3	1,289
Purchases / (sales)	-
Gains or losses recognised in profit or (loss)	(247)
Unrealized gains or (losses) recognised in other comprehensive income	-
At 31 December 2014	**1,530**

There was no movement in the Level 3 instruments during the year-ended 31 December 2013.

B. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

31 December 2014	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Held-to-maturity financial assets				
Bonds and fixed income securities	-	10,936	-	10,936
Loans and receivable financial assets				
Bonds and fixed income securities	-	-	102,266	102,266
Mortgages	-	-	90,283	90,283
Policyholder loans	-	-	3,758	3,758
Other loans	-	-	3,487	3,487
Investment properties	-	-	72,213	72,213
TOTAL assets	**-**	**10,936**	**272,007**	**282,943**
Liabilities				
Loans payable	-	1,681	-	1,681
TOTAL liabilities	**-**	**1,681**	**-**	**1,681**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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**

11. INSURANCE RECEIVABLES AND OTHER ASSETS

	2014 $	2013 $
Insurance receivables	33,859	29,900
Accounts receivable	38,449	42,208
Accrued investment income	7,602	7,615
TOTAL	**79,910**	**79,723**

12. DEFERRED POLICY ACQUISITION COSTS

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

	2014 $	2013 $
At 1 January	9,936	10,155
Recognised deferred acquisition costs	24,137	26,866
Amortisation charge through income	(23,955)	(27,085)
At 31 December	**10,118**	**9,936**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

13. REINSURANCE ASSETS

Reinsurance assets are comprised of the following:

	2014 $	2013 $
Short-term insurance contracts:		
Claims reported and adjustment expenses	35,855	21,231
Unearned premiums ceded	44,969	44,386
Claims incurred but not reported	11,130	5,568
Total short-term insurance contracts	**91,954**	**71,185**
Life and health insurance contracts:		
Participating		
Individual life	(1,445)	(1,097)
Non-participating		
Individual life	(6,689)	(14,683)
Individual and group annuities	2	-
Group life	2,337	2,492
Health and accident	3,052	3,536
Total life and health insurance contracts	**(2,743)**	**(9,752)**
TOTAL reinsurance assets	**89,211**	**61,433**

14. INVESTMENT PROPERTIES

	2014 $	2013 $
Cost	54,585	54,464
Accumulated depreciation	(17,272)	(15,843)
Net book amount	**37,313**	**38,621**
Year ended 31 December		
At beginning of year	38,621	40,594
Net additions and capital improvements	121	141
Impairment	(522)	(1,191)
Depreciation	(907)	(923)
Closing net book amount	**37,313**	**38,621**

Investment properties located in Bermuda consist of the Aon House (formerly ACE Tempest Re Building), owned by Scarborough, a 60% owned subsidiary, and Argo 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 had entered into a Deed of Assignment over BF&M Properties' 60% ownership interest in Scarborough. As at year-end, this loan had been repaid in full and the security was released. Additionally, 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 2014, investment properties with a net book value of $37,313 (2013 - $38,621) were estimated to be valued at $72,213 (2013 - $72,863) on the basis of their estimated open market value for existing use. This value is based on the most recent formal appraisals which were performed in 2014 for both Bermuda and Barbados properties. During the year ended 31 December 2014 certain investment properties' carrying values exceeded their market values, which resulted in an impairment charge of $522 being recorded during the year (2013 - $1,191).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

Significant estimates are used in establishing a fair or market value for investment properties. Management uses external independent appraisers to assist in establishing a fair value as per the accounting policy stated in Note 2 J. Significant estimates include discount rates and assessed and market rental values.

Rental income generated from these investment properties during the year amounted to $4,731 (2013 - $4,286). Operating expenses incurred in support of generating rental income from investment properties was $1,514 (2013 - $1,526).

15. PROPERTY AND EQUIPMENT

	Land and buildings $	Furniture, equipment and leasehold improvements $	Computer hardware $	Motor Vehicles $	Total $
At 1 January 2013					
Cost	13,370	8,029	7,501	894	29,794
Accumulated amortisation	(2,561)	(6,303)	(6,276)	(356)	(15,496)
Net book amount	**10,809**	**1,726**	**1,225**	**538**	**14,298**
Year ended 31 December 2013					
Additions	9,103	966	1,174	268	11,511
Disposals		(190)	(200)	(134)	(524)
Disposals – accumulated amortisation		156	138	80	374
Amortisation charge	(339)	(752)	(693)	(165)	(1,949)
Closing net book amount	**19,573**	**1,906**	**1,644**	**587**	**23,710**
At 31 December 2013					
Cost	22,473	8,805	8,475	1,028	40,781
Accumulated amortisation	(2,900)	(6,899)	(6,831)	(441)	(17,071)
Net book amount	**19,573**	**1,906**	**1,644**	**587**	**23,710**
Year ended 31 December 2014					
Additions	14	1,712	1,631	213	3,570
Disposals	-	(535)	(733)	(148)	(1,416)
Disposals – accumulated amortisation	-	466	184	101	751
Amortisation charge	(442)	(651)	(761)	(176)	(2,030)
Closing net book amount	**19,145**	**2,898**	**1,965**	**577**	**24,585**
At 31 December 2014					
Cost	22,487	9,982	9,373	1,094	42,936
Accumulated amortisation	(3,342)	(7,084)	(7,408)	(517)	(18,351)
TOTAL Net book amount	**19,145**	**2,898**	**1,965**	**577**	**24,585**

As security for the term loan agreement entered into in connection with the acquisition of IHHL, the Lender held a first mortgage over the land and buildings held within BF&M Properties Limited, the carrying value of these buildings amounted to $3,748 at 31 December 2013. The loan was repaid in its entirety in 2014 and as a result the security was released.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

16. 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:

	2014 $	2013 $
Current tax	1,613	2,395
Deferred tax	405	1,301
TOTAL Income tax expense	**2,018**	**3,696**

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

	2014 $	2013 $
ICBL, BF&M Canada and IHHL's income before corporation tax	16,647	23,007
Tax calculated at effective rates of 25%*, 31% and 35% respectively	2,264	8,906
Prior year adjustments	(276)	467
Effect of different tax rates on taxable income	(117)	(502)
Income not subject to tax	(725)	(4,903)
Tax effect of other amounts allowed	(68)	(108)
Expenses not deductible for tax	809	416
Tax under/(over) accrual	125	(580)
Other	6	-
TOTAL Income tax expense	**2,018**	**3,696**

*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%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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:

	2014 $	2013 $
Deferred tax assets:		
Taxable losses carried forward	51	49
Net unearned premium	449	403
Deferred ceding commissions	197	249
Outstanding claims	17	16
Tax credit to components of other comprehensive income	-	(71)
Accelerated tax depreciation	10	-
Gross deferred tax asset	**724**	**646**
Deferred tax liabilities:		
Accelerated tax depreciation	(186)	(201)
Net pension plan liability	(530)	(552)
Tax charge to components of other comprehensive income	(429)	-
Deferred acquisition cost	(714)	(773)
Deferred tax liability	**(1,859)**	**(1,526)**
Net deferred tax liability	**(1,135)**	**(880)**

C. TAX RECOVERABLE

	2014 $	2013 $
Tax recoverable at beginning of year	676	1,901
Tax payments made	2,000	1,170
Current tax expense for year	(1,613)	(2,395)
Tax over accrual	(89)	-
Other	(502)	-
TOTAL Tax recoverable at end of year	**472**	**676**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

D. IMPACT TO OTHER COMPREHENSIVE INCOME

The tax (charge) credit relating to components of OCI is as follows:

	2014		
	Before tax $	**Tax (charge) / credit $**	**After tax $**
Re-measurements of post-employment benefit obligations	(2,822)	(429)	(3,251)
Investments classified as available for sale			
Fair value losses	23	-	23
Currency translation differences	(102)	-	(102)
TOTAL Other comprehensive income	**(2,901)**	**(429)**	**(3,330)**

	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)
TOTAL Other comprehensive income	**4,936**	**(71)**	**4,865**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

17. 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 2013							
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							
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	28,535	697	10,328	68,554
Accumulated amortisation	(10,028)	(2,537)	(700)	(8,320)	-	-	(21,585)
Net book value	**2,466**	**11,963**	**1,300**	**20,215**	**697**	**10,328**	**46,969**
Year ended 31 December 2014							
Additions	-	-	-	6,093	-	-	6,093
Amortisation	(887)	(1,450)	(400)	(2,306)	-	-	(5,043)
Less: Held for sale	-	-	-	(18)	-	-	(18)
Closing net book value	**1,579**	**10,513**	**900**	**23,984**	**697**	**10,328**	**48,001**
At 31 December 2014							
Cost	12,494	14,500	2,000	33,283	697	10,328	73,302
Accumulated amortisation	(10,915)	(3,987)	(1,100)	(9,299)	-	-	(25,301)
TOTAL Net book value	**1,579**	**10,513**	**900**	**23,984**	**697**	**10,328**	**48,001**
Remaining amortisation period in years	1.3 years	7.3 years	2.3 years	7.2 years	n/a	n/a	

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

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 as management concluded that the brand was well recognised and respected in the jurisdiction and there are no plans to rebrand the entity .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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 2014 $	Additions $	Disposal $	Impairment $	Closing 2014 $
ICBL	2,628	-	-	-	2,628
IHHL	7,700	-	-	-	7,700
Total	**10,328**	**-**	**-**	**-**	**10,328**

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

Goodwill and intangibles with a finite life are assessed for impairment as per the accounting policy described in Note 2 I. The recoverable amount of all CGU's has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2015 financial business plans approved by management and are extrapolated using a steady growth rate over the subsequent four years and a terminal value in the calculation. The plans reflect management's best estimate of future profits based on both historical experience and target growth rates. The target growth rates reflect the local insurance market conditions, macro-economic factors of the region, and overall group targets to grow the business and manage costs. Future profits are discounted using a risk adjusted weighted average cost of capital. During the annual impairment assessment, management reviewed its assumptions based on the current challenging conditions and expected delays in recovery of those conditions in certain Caribbean jurisdictions in which the Group operates.

i) ICBL

The recoverable amount of goodwill was assessed to be more than the carrying value and as a result no goodwill impairment charge was recognised in the consolidated statement of income. This assessment was based on a growth rate of 4% for cash inflows for the first five years followed by a nil% terminal rate. Cash outflows were estimated to grow at 1.5% for the first five years followed by a nil% terminal growth rate. All of the forecast cash flows were discounted at a rate of 12.5%.

Sensitivities were performed and the Group estimated that a nil% growth rate in cash inflows beyond the current year plan would cause a goodwill impairment of $3,839. An impairment of $2,273 would be experienced if direct cost rates grew by 5%. Management also estimated that a 250 basis point increase in the discount rate would not result in an impairment but would reduce the recoverable amount of the asset by $1,724.

ii) IHHL

The recoverable amount of goodwill was assessed to be more than the carrying value and as a result no goodwill impairment charge was recognised in the consolidated statement of income. This assessment was based on a growth rate of nil% for cash inflows for ten years. Cash outflows were estimated to grow at 1.5% for ten years. All of the forecast cash flows were discounted at a rate of 12.5%.

The Group estimated that a 2% annual reduction in cash inflows beyond the current year plan would not cause an impairment but would reduce the recoverable amount by $7,740. Likewise a 5% growth rate in direct costs beyond the current year would reduce the recoverable amount by $9,244. Management also estimated that a 250 basis point increase in the discount rate would not result in an impairment but would reduce the recoverable value of the asset by $3,239.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

These sensitivities are indicative only and should be considered with caution as the effect of the variation in each assumption is calculated in isolation without changing any other assumption, which in practice is unlikely. The estimation of the recoverable amount is an area of significant judgement. Reductions in the estimated recoverable amount could arise from various factors, such as reductions in net cash flows, adverse changes to discount rates and growth rates or any combination.

18. SEGREGATED FUNDS

A. SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

	2014 $	2013 $
Mutual funds	628,874	586,791
TOTAL	**628,874**	**586,791**

B. SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	2014 $	2013 $
Segregated funds assets – beginning of year	586,791	478,911
Additions:		
Pension contributions	93,561	81,267
Life insurance	17	17
Net realised and unrealised gains	16,129	87,543
Total additions	**109,707**	**168,827**
Deductions:		
Payments to policyholders and their beneficiaries	(61,117)	(54,991)
Management fees	(6,507)	(5,956)
Total deductions	**(67,624)**	**(60,947)**
Net additions to segregated funds	**42,083**	**107,880**
TOTAL Segregated funds assets – end of year	**628,874**	**586,791**

19. OTHER LIABILITIES

These include:	2014 $	2013 $
Payables and accrued expenses	26,717	37,570
Insurance balances payable	24,803	14,032
Deferred commission income	10,602	9,457
Policyholder dividends payable	5,116	5,532
Dividends payable	2,217	600
TOTAL	**69,455**	**67,191**

Insurance balances payable include amounts payable to reinsurers and brokers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

20. LOANS PAYABLE

Loans payable consist of:

	2014 $	2013 $
Loan payable	1,769	2,391
Bank borrowing	-	15,750
TOTAL	**1,769**	**18,141**

Estimated principal repayments on the loans payable balance of $1,769 (2013 - $18,141) for the next four years are as follows:

	$
2015	542
2016	542
2017	542
2018	143
TOTAL	**1,769**

	2014 $	2013 $
Current liability portion (payable within 12 months)	542	7,601
Long-term liability portion	1,227	10,540
TOTAL	**1,769**	**18,141**

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 2014 was $nil (2013 - $nil). 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 in 2018 (contract maturity – 1 January 2026). During the year $622 (2013 - $649) 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 2014 is $1,681 (2013 - $2,814).

B. BANK BORROWING

On 30 March 2012, the Group entered into a term loan agreement in connection with the acquisition of IHHL. Under the terms of the agreement, the Group borrowed $28,000 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 was at 2.5% above LIBOR and was payable on the last day of each calendar quarter commencing on 30 June 2012. During 2014 $15,750 (2013 - $7,000) of the principal balance was repaid which resulted in the borrowing being repaid in full by 31 December 2014 Deferred transaction costs incurred on the bank borrowings amounted to $nil at the end of 2014 ($360 – 2013) with $360 expensed in the consolidated statement of income in 2014 ($160 – 2013). The borrowings were secured by the land and buildings of the Group (notes 14 and 15). The security had been released as at 31 December 2014 upon full repayment of the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

21. 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 $1,179 (2013 - $1,246) equating to the service cost for the year for these employees were made to this plan. The employer portion was $585 (2013 - $619).

In 2007, ICBL introduced a defined contribution plan for new employees. Contributions of $78 (2013 - $69) 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 2014 IHHL contributed $165 (2013 - $168).

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. 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 pay 100% of their premiums if they want to continue to be covered by the plan. This change was treated as a curtailment and reduced the number of current employees who are entitled to benefits. The resulting change of $1,051 was reported as a gain and included in pension retirement cost for the year-ending 31 December 2013.

Cash contributions to the plan by the Group during 2014 were $310 (2013 - $307).

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 Trustees of the pension fund.

Under the plans, the pension amount at retirement is based on an employee's final average earnings. The schemes are generally funded through payments determined by periodic actuarial calculations. Cash contributions to the plan by the Group during 2014 were $1,203 (2013 - $3,446).

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 2014.

The following table provides summaries of the defined benefit pension and post-retirement medical plans' estimated financial position at 31 December 2014 and 2013:

	Defined benefit pension plans		Medical benefit plans	
Changes in Accrued Benefit Obligation	**2014 $**	**2013 $**	**2014 $**	**2013 $**
Balance - beginning of year	47,625	50,874	4,617	6,520
Current service cost	778	992	-	78
Interest expense	2,591	2,408	189	258
Past service cost and gains and losses on settlements	(472)	-	(42)	(1,051)
Actuarial (gains) and losses arising from changes in financial assumptions	2,868	(4,694)	216	(881)
Changes in asset ceiling, excluding amounts included in interest expense	985	294	-	-
Benefits paid	(2,514)	(2,249)	(310)	(307)
TOTAL Accrued benefit obligation - End of year	**51,861**	**47,625**	**4,670**	**4,617**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

	Defined benefit pension plans		Medical benefit plans	
	2014	2013	2014	2013
Changes in Plan Assets	$	$	$	$
Fair value - beginning of year	50,012	47,075	-	-
Interest income	2,057	1,079	-	-
Return on plan assets, excluding amounts included in interest income	1,478	722	-	-
Employer contributions	1,203	3,446	310	307
Plan expenses	(30)	(61)	(310)	(307)
Benefits paid	(2,514)	(2,249)	-	-
TOTAL Fair value of plan assets - End of year	**52,206**	**50,012**	**-**	**-**
NET Accrued (benefit) liability	**(345)**	**(2,387)**	**4,670**	**4,617**

Amounts recognised in respect of these defined benefit plans:

	Defined benefit pension plans		Medical benefit plans	
Net benefit cost recognised in Consolidated	2014	2013	2014	2013
Statement of Income	$	$	$	$
Current service cost	778	992	-	78
Interest expense / (income)	(247)	88	189	257
Past service cost and gains and losses	(472)	-	(42)	(1,051)
TOTAL Net benefit cost	**59**	**1,080**	**147**	**(716)**

	Defined benefit pension plans		Medical benefit plans	
	2014	2013	2014	2013
Re-measurement effects recognised in OCI	$	$	$	$
Return on plan assets (excluding amounts included in interest income)	(656)	435	-	-
Actuarial gains and losses arising from changes in demographic assumptions	(160)	-	-	-
Actuarial gains and losses arising from changes in financial assumptions	3,187	(4,480)	216	(881)
Adjustments for restrictions on the defined benefit asset	665	295	-	-
TOTAL Re-measurements effects	**3,036**	**(3,750)**	**216**	**(881)**

Accrued benefit obligation and plan assets by country are as follows:

	Bermuda	Barbados	Total
At 31 December 2014	$	$	$
Present value of obligation	40,001	16,530	56,531
Fair value of plan assets	(32,954)	(19,252)	(52,206)
TOTAL	**7,047**	**(2,722)**	**4,325**

	Bermuda	Barbados	Total
At 31 December 2013	$	$	$
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**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

Asset allocation by major category for the defined benefit pension plan is as follows:

	2014			2013		
	Quoted $	Unquoted $	Total $	Quoted $	Unquoted $	Total $
Equity instruments	5,612	-	5,612	5,353	-	5,353
Fixed income instruments	21,626	10,695	32,321	20,448	11,043	31,491
Real estate	-	3,207	3,207	-	3,356	3,356
Other	-	11,066	11,066	-	9,812	9,812
TOTAL Asset allocation	**27,238**	**24,968**	**52,206**	**25,801**	**24,211**	**50,012**

Pension and medical plan assets include the Group's ordinary shares with a fair value of $993 (2013 - $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' bond holdings.

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

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

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 weighted-average assumptions are as of 31 December 2014 and 2013:

	Defined benefit pension plans		Medical benefit plans	
Bermuda	2014 %	2013 %	2014 %	2013 %
Benefit cost during the year:				
Discount rate	3.50	3.50	3.25	4.00
Rate of compensation increase	2.00	3.00	-	-
Accrued benefit obligation at end of year:				
Discount rate	3.50	4.50	3.25	3.50
Compensation increase	3.00	4.00	-	-

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	
Barbados	2014 %	2013 %	2014 %	2013 %
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	-	-

Medical premium inflation in Barbados was assumed to be 6% (2013 – 6%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

	Defined benefit pension plans		Medical benefit plans	
	2014 Increase $	2014 Decrease $	2014 Increase $	2014 Decrease $
Discount rate	16,259	21,346	598	712
Salary increase	14,807	13,756	442	385
Average life expectancy	14,550	99	234	24

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 2015 are $1,392.

The weighted average duration of the defined benefit obligation is 13.83 years.

The weighted average duration of the medical plan obligation is 10.10 years.

22. INVESTMENT CONTRACT LIABILITIES

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

Composition of investment contract liabilities	2014 $	2013 $
Guaranteed interest pension		
Bermuda	278,540	276,293
Barbados	54,459	53,196
Term certain annuities	3,004	3,773
TOTAL investment contract liabilities	**336,003**	**333,262**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

Investment contract liabilities carried at amortised cost	2014 $	2013 $
At 1 January	53,196	50,329
Pension contributions	3,321	4,914
Net investment income	2,661	3,041
Benefits paid	(4,265)	(4,708)
Management fees deducted	(454)	(380)
TOTAL At 31 December	**54,459**	**53,196**

Investment contract liabilities carried at fair value	2014 $	2013 $
At 1 January	280,066	267,588
Pension contributions	42,378	53,127
Net investment income	3,133	(2,030)
Benefits paid	(42,263)	(40,341)
Management fees deducted	(148)	-
Net transfers in	(1,622)	1,722
TOTAL At 31 December	**281,544**	**280,066**

23. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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

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.

B. COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	2014 $	2013 $
Gross		
Short term insurance contracts:		
Claims reported and loss adjustment expenses	76,264	55,341
Unearned premiums	84,965	88,506
Claims incurred but not reported	21,654	15,979
Total short-term insurance contracts	**182,883**	**159,826**
Life and health insurance contracts:		
Participating		
Individual life	31,503	27,506
Non-participating		
Individual life	15,726	62,682
Individual and group annuities	100,271	86,325
Group life	10,661	12,122
Health and accident	22,802	24,489
Total life and health insurance contracts	**180,963**	**213,124**
TOTAL Insurance contract liabilities - gross	**363,846**	**372,950**
Net		
Short term insurance contracts:		
Claims reported and loss adjustment expenses	40,411	34,111
Unearned premiums	39,994	44,119
Claims incurred but not reported	10,524	10,411
Total short term insurance contracts	**90,929**	**88,641**
Life and health insurance contracts:		
Participating		
Individual life	32,948	28,603
Non-participating		
Individual life	22,415	77,365
Individual and group annuities	100,269	86,325
Group life	8,324	9,630
Health and accident	19,750	20,953
Total life and health insurance contracts - net	**183,706**	**222,876**
TOTAL Insurance contract liabilities - net	**274,635**	**311,517**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

C. CHANGES IN SHORT TERM INSURANCE CONTRACT LIABILITIES

	2014			2013		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January						
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 1 January	71,320	(26,798)	44,522	76,596	(32,222)	44,374
Cash paid for claims settled in year	(45,880)	24,495	(21,385)	(36,507)	14,470	(22,037)
Increase in liabilities:						
Arising from current-year claims	65,598	(38,633)	26,965	31,477	(9,911)	21,566
Arising from prior-year claims	6,880	(6,047)	833	(246)	865	619
TOTAL at 31 December	**97,918**	**(46,983)**	**50,935**	**71,320**	**(26,798)**	**44,522**
Claims and adjustment expenses	76,264	(35,853)	40,411	55,341	(21,230)	34,111
Claims incurred but not reported	21,654	(11,130)	10,524	15,979	(5,568)	10,411
TOTAL at 31 December	**97,918**	**(46,983)**	**50,935**	**71,320**	**(26,798)**	**44,522**

The fair value of the net provision for claims and adjustment expenses of $50,935 (2013 - $44,522) is $45,800 (2013 - $40,022). The fair value is calculated by the Group's actuaries and represents the discounted value of the net provision.

D. UNEARNED PREMIUM LIABILITY

	2014			2013		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	**88,506**	**(44,387)**	**44,119**	**87,868**	**(51,980)**	**35,888**
Premium written during the year	200,941	(131,265)	69,676	218,652	(124,426)	94,226
Premium earned during the year	(204,484)	130,683	(73,801)	(218,014)	132,019	(85,995)
TOTAL at 31 December	**84,963**	**(44,969)**	**39,994**	**88,506**	**(44,387)**	**44,119**
Movement during the year, net of acquisition	**3,543**	**582**	**4,125**	**(638)**	**(7,593)**	**(8,231)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

E. CHANGES IN LIFE AND HEALTH INSURANCE CONTRACT LIABILITIES

	2014 Gross $	2014 Reinsurance $	2014 Net $	2013 Gross $	2013 Reinsurance $	2013 Net $
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 - 1 January	**213,124**	**9,752**	**222,876**	**213,181**	**10,785**	**223,966**
Change in provision for policy benefits:						
Aging and changes in balances on in-force policies	3,767	(304)	3,463	12,544	3,140	15,684
Changes in assumptions:						
Investment returns	11,428	1,529	12,957	(11,084)	(3,466)	(14,550)
Mortality	1,796	289	2,085	(408)	3	(405)
Lapse	357	57	414	405	(705)	(300)
Expense	(809)	(10)	(819)	(160)	196	36
Premium payment patterns	-	-	-	(632)	(738)	(1,370)
Other	655	(55)	600	(374)	(20)	(394)
Other changes	(49,844)	(8,515)	(58,359)	(576)	557	(19)
	(32,650)	(7,009)	(39,659)	(285)	(1,033)	(1,318)
Provision for policy benefits	176,391	2,743	179,134	209,041	9,752	218,793
Claims payable	4,231	-	4,231	4,482	-	4,482
Provision for participating policyholders	341	-	341	(399)	-	(399)
TOTAL Life and health insurance contract liabilities – 31 December	**180,963**	**2,743**	**183,706**	**213,124**	**9,752**	**222,876**

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 consolidated statement of financial position, the change in the value of those assets would be largely offset by a change in the value of liabilities, where the duration of the assets and liabilities are closely matched, resulting in limited changes to surplus.

F. COMPOSITION OF THE ASSETS SUPPORTING LIABILITIES

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

2014	Bonds and fixed income securities $	Mortgages and loans $	Derivatives $	Cash $	Total $
Participating					
Individual life	29,119	2,941	-	885	32,945
Non-participating					
Individual life	16,894	6,911	-	1,074	24,879
Individual and group annuities	67,706	32,195	-	-	99,901
Group life	2,065	987	-	2,823	5,875
Health and accident	10	1,358	-	18,738	20,106
TOTAL	**115,794**	**44,392**	**-**	**23,520**	**183,706**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

	2013				
	Bonds and fixed income securities $	Mortgages and loans $	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
TOTAL	**154,510**	**44,655**	**819**	**22,892**	**222,876**

24. SHARE CAPITAL

	2014 $	2013 $
Authorised -		
10,000,000 (2013 - 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	8,652	8,558

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:

	2014 # of shares	2013 # of shares
At 1 January	8,558,568	8,476,970
Shares issued under the employee share purchase plan	20,700	21,895
Shares issued under the equity incentive plan	8,030	16,473
Stock grants issued under the equity incentive plan	64,538	43,230
TOTAL at 31 December	**8,651,836**	**8,558,568**

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 (2013 - 300,000) have been made available for employee share purchase. As at 31 December 2014, 276,705 shares had been purchased (2013 – 256,005). During the year, 20,700 (2013 – 21,895) shares were issued. The fair value of the shares amounted to $354 (2013 - $367) which was credited to share capital and share premium. The discount of $53 (2013 - $55) was charged to compensation expense.

Shares held by the Group’s defined benefit pension scheme
As at 31 December 2014, 55,992 (2013 – 55,992) shares of the Group were owned within the investment portfolio of the Group’s defined benefit pension scheme.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

A. EQUITY INCENTIVE PLAN

i) Stock options

The Group no longer grants stock options as part of its equity incentive plan. The remaining stock options outstanding have a ten-year term. The following table summarises the stock options issued under the Group's Equity Incentive Plan:

	# of options	2014 Weighted average exercise price	# of options	2013 Weighted average exercise price
Outstanding at beginning of year	153,722	18.36	170,195	17.60
Exercised	(8,030)	16.54	(16,473)	10.50
TOTAL Outstanding at end of year	145,692	18.46	153,722	18.36
Exercisable at 1 January 2015 and 2014	**145,692**	**18.46**	**153,722**	**18.36**

The remaining weighted average contractual life of the stock options is 1.5 years (2013 – 2.5 years). The range of fair values of options outstanding is $16.19 to $22.00. The Group's stock options will be fully vested on 31 December 2018.

The characteristics of options granted in earlier years are as follows:

Stock options expiring 1 January	# of options outstanding	# of options exercisable as at 1 January 2015	Exercise price $
2015	-	-	-
2016	47,492	47,492	16.19
2017	46,200	46,200	16.82
2018	52,000	52,000	22.00
TOTAL	**145,692**	**145,692**	

ii) Restricted stock grants and restricted units

During the year 64,538 (2013 – 43,230) common shares and 9,938 units (2013 – 7,253) 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 $1,322 (2013 – $820) 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 $1,094 (2013 – $1,377).

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

Restricted stock and unit grants vesting	# of shares	# of share units
1 July 2015	51,231	10,525
30 April 2016	36,320	6,815
12 June 2017	61,788	9.938
TOTAL	**149,339**	**27,278**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(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:

	2014			2013		
	Income $	# of weighted average shares	per share amount $	Income $	# of weighted average shares	per share amount $
Net earnings	21,805			25,151		
Basic earnings per share: Income available to common shareholders	21,805	8,611,225	2.53	25,151	8,524,348	2.95
Effect of dilutive securities: Stock options		5,811			2,952	
Diluted earnings per share:						
Income available to common shareholders and assumed conversions	21,805	8,617,036	2.53	25,151	8,527,300	2.95

The weighted average number of shares used in the calculation of diluted earnings per share for 2014 excludes 13,031 (2013 – 15,307) 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.

25. 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.

	2014 $	2013 $
Commission income	29,140	31,483
Fees earned from management of insurance contracts	(172)	681
Fees earned from management of investment contracts	419	408
Pension administration income	5,407	4,582
Fee income	4,728	2,821
TOTAL Commission and other income	**39,522**	**39,975**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

26. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2014 $	2013 $
Gross life and health claims and benefits paid	79,471	93,083
Reinsurance recoveries	(7,778)	(7,993)
Change in insurance contract liabilities	40,195	(2,043)
Change in reinsurance assets	9,616	727
Total life and health policy benefits	**121,504**	**83,774**
Gross short term claim and adjustment expenses paid	45,880	36,507
Reinsurance recoveries	(24,495)	(14,470)
Change in insurance contract liabilities	26,599	(5,276)
Change in reinsurance assets	(20,185)	5,424
Total short term claim and adjustment expenses	**27,799**	**22,185**
TOTAL Insurance contracts benefits and expenses	**149,303**	**105,959**

27. OPERATING EXPENSES

	2014 $	2013 $
Wages and salaries	36,816	36,896
Professional and consulting fees	7,045	6,194
Post retirement benefit costs	1,103	1,241
IT maintenance contracts	3,358	2,574
Advertising and business development	2,947	2,933
Bank charges and foreign currency purchase tax	1,832	2,042
Office rent, building and utilities costs	2,151	1,841
Acquisition related expenses	360	(360)
Share expense	1,094	1,377
Compliance, legal and regulatory	1,566	1,332
Office and administration expenses	2,424	2,001
Bad debt	682	374
Travel	587	575
Memberships and subscriptions	410	178
Other	2,077	2,670
TOTAL Operating expenses	**64,452**	**61,868**

28. 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 2Ci), 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

A. SALES OF INSURANCE CONTRACTS AND OTHER SERVICES

	2014 $	2013 $
Sales of insurance contracts and pension services:		
- Key management	124	164
Purchase of services:		
- Key management	176	201

B. KEY MANAGEMENT COMPENSATION

The following table shows compensation to key management:

	2014 $	2013 $
Salaries and other short-term employee benefits	3,992	4,703
Post-employment benefits	168	161
Other long-term benefits	88	19
Share based payments	743	565
TOTAL	**4,991**	**5,448**

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 2014 were 372,030 (2013 – 285,190) 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 24.

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.

	2014 $	2013 $
At 1 January	8,165	9,776
Adjustment for changes in key management	(6,345)	(3,071)
Loans extended (repayments received)	445	1,434
Interest charges	84	26
TOTAL at 31 December	**2,349**	**8,165**

29. 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. This agreement becomes null and void on the disposal of Bermuda International as described in Note 4.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

30. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

	2014 $	2013 $
Items that will not be subsequently reclassified to profit or loss		
Re-measurement of post-employment benefit obligation	(5,528)	(2,541)
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available for sale financial assets	(1,950)	(1,962)
Unrealised foreign exchange losses on translation of foreign operations	(120)	(18)
TOTAL	**(7,598)**	**(4,521)**

31. COMMITMENTS AND CONTINGENCIES

A. OPERATING LEASES

i) Group as Lessor

The Group has entered into non-cancellable operating leases on space within several of the Group's office buildings. These agreements include an extension option and terminate between 2015 and 2021. The future minimum lease payments receivable are as follows:

	2014 $	2013 $
No later than 1 year	1,418	4,057
Later than 1 year and no later than 5 years	1,633	880
Later than 5 years	544	-
TOTAL	**3,595**	**4,937**

ii) Group as Lessee

The Group has also entered into various commercial leases with renewable options on office space. The future minimum lease payments payable under non-cancellable leases are as follows:

	2014 $	2013 $
No later than 1 year	152	71
Later than 1 year and no later than 5 years	336	-
Later than 5 years	-	-
TOTAL	**488**	**71**

B. CONTINGENCIES

The Group is in discussions with a third party over a fee associated with the provision of one of the Group's products. Under dispute is the interpretation of the rules around the calculation of the fee. The Group is working with legal counsel to reach a conclusion to the matter. It is the Group's position that a liability does not exist and accordingly no amount has been provided for in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

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. Figures presented in this note have not been amended to conform to the accounting policies of the Group and reflect that of the subsidiary with material non-controlling interest. The key variances in accounting policies are the discounting of insurance contract liabilities and fair value presentation of investment properties and building classified as property and equipment.

Summarised statement of financial position	2014 $	2013 $
Total assets	213,979	211,109
Total liabilities	136,558	133,358
TOTAL Net assets	**77,421**	**77,751**

Summarised statement of income	2014 $	2013 $
Net premium earned	35,256	33,084
Total income	46,708	43,922
Total benefits & expenses	(42,575)	(34,741)
Income before taxes	4,133	9,181
Income taxes	(660)	(1,792)
TOTAL Net income after taxes	**3,473**	**7,389**

Summarised statement of comprehensive income	2014 $	2013 $
Items that will not be reclassified to profit or loss	(405)	540
Items that may be subsequently reclassified to profit or loss	23	290
TOTAL Comprehensive income	**3,091**	**8,219**
Income attributable to non-controlling interest	**161**	**31**

Summarised statement of cash flows	2014 $	2013 $
Net cash generated from operating activities	1,877	(886)
Net cash used in investing activities	4,132	5,606
Net cash used in financing activities	(1,320)	(2,487)
Net increase in cash and cash equivalents	**4,689**	**2,233**
Cash and cash equivalents at beginning of year	**16,148**	**13,915**
Cash and cash equivalents at end of year	**20,837**	**16,148**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2014
(in thousands of Bermuda dollars except share and per share amounts)

33. COMPARATIVE FIGURES

Certain of the 2013 comparative figures have been reclassified to conform to the presentation adopted for 2014.

Amounts totaling $9.9 million which were classified in 2013 as cash and cash equivalents were reclassified to restricted cash on the consolidated statement of financial position. These funds are not available for use by the Group and represent funds held for investment contract liabilities. As a result of this reclass, the consolidated statement of cash flows was also amended to report the movement in restricted cash as a component of operating activities and to present the amended cash and cash equivalent balance.

All other reclasses were not considered significant.

34. SUBSEQUENT EVENTS

On 20 March 2015, the Group declared a dividend to be paid to shareholders of record at 31 March 2015. The dividend was paid on 15 April 2015. $1,905 was paid out in total, representing a $0.22 per share dividend paid on 8,657,253 shares.

The Group, as lessor, renewed an operating lease on one of its investment properties. The lease expired on 31 December 2014 and was renewed for a further 5 years to expire on 31 December 2019. The terms of the lease were not significantly different to the expired agreement and the lease is non-cancellable.

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
	Catherine S. Lord, B.Sc., J.P.
	R. John Wight, CPA, CA, CPCU
	Glen P. Gibbons, B.A., A.C.I.I., Chartered Insurer
OFFICERS	**R. John Wight, CPA, CA, CPCU,** *President & Chief Executive Officer*
	Michael White, FIA, *Chief Financial Officer*
	Abigail Clifford, B.A., M.Sc., *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, CPA, CA, *Head of Financial Reporting*
	Lynda A. Davidson Leader, B.A., CPA, CA, *Vice President, Corporate Services*
	Andrew Hanwell, *Vice President, Personal Insurance*
	Henry Sutton, CPCU, ARe, *Vice President, Customer Relations*
	Angela R. Tucker, CA, CPA, *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
	Ann B. Teixeira, LLIF
	C.L.F. “Lee” Watchorn, FCIA, FSA
	R. John Wight, CPA, CA, CPCU
	Paul Matthews, B.A., FLMI
OFFICERS	**R. John Wight, CPA, CA, CPCU,** *President & Chief Executive Officer*
	Michael White, FIA, *Chief Financial Officer*
	Abigail Clifford, B.A., M.Sc., *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, CPA, CA, *Head of Financial Reporting*
	Gina A. Bradshaw, FLMI, *Vice President, Client Services*
	Lynda A. Davidson Leader, B.A., CPA, CA, *Vice President, Corporate Services*
	Holly A. Flook, RN, BSN, *Vice President, Health*
	Rob Jackson, CFP, CLU, *Vice President, Sales*
	Dennis Marinac, FCIA, FSA, *Vice President and Life Actuary*
	Brian McLeod, *Vice President, Operations*
	Alyson L. Nicol, CPA, CA, *Vice President, Pensions*
	Felicia Rickards, *Vice President, Sales and Customer Relations*
	Angela R. Tucker, CA, CPA, *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, FCIA, FSA
	R. John Wight, CPA, CA, CPCU
OFFICERS	**R. John Wight, CPA, CA, 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, CPA, CA, CPCU
	Lynda A. Davidson Leader, B.A., CPA, CA
OFFICERS	**R. John Wight, CPA, CA, 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, CPA, CA, 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, CPA
	C.L.F. "Lee" Watchorn, FCIA, FSA
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*
	Kamante Millar, CPA, CA, *Chief Financial Officer*

ISLAND HERITAGE HOLDINGS LTD.

DIRECTORS	**Gavin R. Arton,** *Chairman*
	R. John Wight, CPA, CA, CPCU, *Deputy Chairman*
	Conor O'Dea, FCA
	C.L.F. "Lee" Watchorn, FCIA, FSA
	Gregory D. Haycock, FCA, J.P.
	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*
	Alissa R. Matthews, CA, *Chief Financial Officer*

NOTES

BF&M LIMITED

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 (51.4% ownership)

Island Heritage Holdings Ltd.

Island Heritage Insurance Company 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)

Hamilton Financial Limited

INVESTORS IN PEOPLE | Gold

BF&M LIFE I BF&M GENERAL

ISLAND HERITAGE

ICBL