

The BF&M difference
Insurance the way it should be



2018 Highlights

For the six months ended 30 June 2018 and 2017

	2018	2017	% Change
Gross premiums written (in \$000's)	\$179,732	\$175,776	2.3%
Shareholders' net income (in \$000's)	\$6,731	\$13,883	(51.5%)
Cash dividends (in \$000's)	\$3,872	\$3,852	0.5%
Net earnings per share	\$0.77	\$1.59	(51.6%)
Cash dividends per share	\$0.44	\$0.44	0.0%
Annualised return on general fund assets	1.0%	2.4%	(58.3%)
Annualised return on shareholders' equity	5.1%	10.0%	(49.5%)

Report to Shareholders

I am pleased to present the unaudited financial statements for BF&M Limited (“BF&M” or “BF&M Group”) for the half year ending 30 June 2018. Consolidated shareholders’ net income for the six months was \$6.7 million. Shareholders’ net income for the comparable period in 2017 was \$13.9 million. The 2018 results represent an annualised return on shareholders’ equity of 5.1%. At 30 June 2018, equity attributable to shareholders was \$264.7 million and general fund assets totaled \$1.4 billion.

We are reporting solid earnings and strong operating results for the first half of 2018. Our earnings continue to reflect adjustments made to our reinsurance programme in 2017, when we placed additional reinsurance coverage as a precautionary measure to further protect our balance sheet—a decision that served us so well through the worst hurricane activity in the BF&M Group’s history.

Ratings

BF&M continues to hold the strongest financial ratings by A.M. Best for a domestic insurer in the Caribbean region. Our four main principal operating companies are rated as follows:

BF&M General Insurance Company Limited	Bermuda	A (Excellent)
BF&M Life Insurance Company Limited	Bermuda	A (Excellent)
Island Heritage Insurance Company Ltd.	Cayman	A (Excellent)
Insurance Corporation of Barbados Limited	Barbados	A- (Excellent)

These ratings were recently reaffirmed by A.M. Best, who cited our balance sheet strength, robust risk management and history of positive operating results—even in years of catastrophic storms such as 2017. The financial strength of the BF&M group of companies is the cornerstone of our promise to pay and to be there for our policyholders over the long term.

Corporate Social Responsibility

Community engagement continues to be a mainstay of BF&M culture. We will shortly be holding our 22nd annual BF&M Breast Cancer Awareness Walk. Events like this, along with Island Heritage’s CharityDrive in Cayman, have become staples in the calendars of our local communities. Earlier this year, we were a main sponsor of Bermuda’s World Triathlon Series event, an event which not only inspired scores of young spectators to take up sport, but which further established Bermuda as a premier location to showcase world-class sporting events. These are just a couple of the over 80 sponsorship, volunteer and charitable initiatives in which BF&M Group employees engage every year. I am proud of the hard work, commitment and engagement of our staff across the Group. Our people form the backbone of BF&M’s track record of success.



R. John Wight, FCPA, FCA, CPCU
Group President and Chief Executive Officer

Consolidated Statement of Financial Position

As at 30 June 2018 (unaudited) and 31 December 2017 (audited)
in thousands of Bermuda dollars

	30 Jun 2018 \$	31 Dec 2017 \$
Assets		
Cash and cash equivalents	184,584	205,072
Fixed deposits	6,941	7,765
Regulatory deposits	17,175	16,902
Investments	635,571	651,326
Insurance receivables and other assets	127,303	140,949
Deferred policy acquisition costs	10,335	9,577
Reinsurance assets	290,672	624,217
Investment properties	35,286	35,760
Property and equipment	23,164	23,740
Tax recoverable	3,357	3,455
Deferred tax asset	780	808
Intangible assets	53,419	53,123
Restricted cash	20,828	19,058
Total general fund assets	1,409,415	1,791,752
Segregated funds assets	862,257	828,567
Total assets	2,271,672	2,620,319
Liabilities		
Other liabilities	204,068	232,438
Tax payable	33	-
Deferred tax liability	13	-
Retirement benefit obligations	2,737	3,196
Investment contract liabilities	336,539	335,238
Insurance contract liabilities	558,239	916,152
Total general fund liabilities	1,101,629	1,487,024
Segregated funds liabilities	862,257	828,567
Total liabilities	1,963,886	2,315,591
Equity		
Share capital	8,841	8,847
Treasury shares	(152)	(2,031)
Contributed surplus	1,482	1,482
Share premium	62,231	63,249
Accumulated other comprehensive loss	(7,161)	(6,959)
Retained earnings	199,417	196,558
Total shareholders' equity	264,658	261,146
Non-controlling interests	43,128	43,582
Total equity	307,786	304,728
Total liabilities and equity	2,271,672	2,620,319

Consolidated Statement of Income

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars except per share amounts

	30 Jun 2018 \$	30 Jun 2017 \$
Income		
Gross premiums written	179,732	175,776
Reinsurance ceded	(101,054)	(93,195)
Net premiums written	78,678	82,581
Net change in unearned premiums	11,187	13,518
Net premiums earned	89,865	96,099
Investment income	(5,064)	15,726
Commission and other income	23,062	22,407
Rental income	2,016	2,013
Total income	109,879	136,245
Expenses		
Insurance contract benefits and expenses		
Life and health policy benefits	41,788	55,635
Short term claim & adjustment expenses	13,121	12,291
Investment contract benefits	(3,877)	212
Participating policyholders' net income	284	52
Commission and acquisition expense	14,916	15,450
Operating expenses	31,063	33,228
Amortisation expense	4,621	4,597
Interest on loan	-	11
Total benefits and expenses	101,916	121,476
Income before income taxes	7,963	14,769
Income taxes	(564)	(305)
Net income for the period	7,399	14,464
Net income attributable to:		
Shareholders	6,731	13,883
Non-controlling interests in subsidiaries	668	581
Net income for the period	7,399	14,464
Earnings Per Share:		
Basic and Fully diluted	\$0.77	\$1.59

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars

	30 Jun 2018 \$	30 Jun 2017 \$
Net income for the period after income taxes	7,399	14,464
Other comprehensive (loss) income		
Items that may be subsequently reclassified to the income statement		
Investments classified as available for sale		
Fair value (losses) gains	(90)	302
Currency translation differences	(156)	90
Total other comprehensive (loss) income after income taxes	(246)	392
Other comprehensive income attributable to:		
Shareholders	(202)	245
Non-controlling interests in subsidiaries	(44)	147
Total other comprehensive (loss) income after income taxes	(246)	392
Comprehensive income	7,153	14,856
Comprehensive income attributable to:		
Shareholders	6,529	14,128
Non-controlling interests in subsidiaries	624	728
Comprehensive income	7,153	14,856

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars

	30 Jun 2018 \$	30 Jun 2017 \$
Share capital		
Balance - beginning of year	8,847	8,784
Share grants issued under equity incentive plan	-	76
Share grants forfeited under equity incentive plan	(6)	-
Balance - end of period	8,841	8,860
Treasury shares		
Balance - beginning of year	(2,031)	(1,265)
Acquisition of shares	-	(613)
Shares issued under employee share purchase plan	275	140
Shares issued under equity incentive plan	1,604	166
Balance - end of period	(152)	(1,572)
Contributed surplus - beginning and end of period	1,482	1,482
Share premium		
Balance - beginning of year	63,249	62,162
Shares issued under equity incentive plan	12	-
Share grants issued under equity incentive plan	(232)	1,161
Share grants forfeited under equity incentive plan	(129)	-
Treasury shares allocated	(70)	60
Deferred share grant	(599)	(572)
Balance - end of period	62,231	62,811
Accumulated other comprehensive loss		
Balance - beginning of year	(6,959)	(7,240)
Other comprehensive (loss) income for the period	(202)	245
Balance - end of period	(7,161)	(6,995)
Retained earnings		
Balance - beginning of year	196,558	200,569
Net income for the period	6,731	13,883
Cash dividends	(3,872)	(3,852)
Balance - end of period	199,417	210,600
Total equity attributable to shareholders of the company	264,658	275,186
Attributable to non-controlling interests		
Balance - beginning of period	43,582	44,792
Net income for the period	668	581
Other comprehensive (loss) income for the period	(44)	147
Cumulative foreign exchange adjustment	4	19
Shares issued to non-controlling interests	-	1
Cash dividends	(1,082)	(1,052)
Balance - end of period	43,128	44,488
Total equity	307,786	319,674

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars

	30 Jun 2018 \$	30 Jun 2017 \$
Cash flows from operating activities		
Income before income taxes	7,963	14,769
Adjustments for:		
Investment income	(10,445)	(10,013)
Net realised loss on investments	126	3,404
Change in fair value of investments	12,235	(11,660)
Provision for losses on investments	1,240	659
Amortisation of property and equipment	975	1,114
Amortisation of investment properties	526	566
Amortisation of intangible assets	3,121	2,917
Loss on sale of intangibles & property and equipment	(29)	-
Interest on loan	-	11
Compensation expense related to shares and options	819	1,032
Changes in assets and liabilities:		
Restricted cash	(1,770)	(979)
Fixed and regulatory deposits	970	(7,567)
Insurance receivables and other assets	13,757	(29,905)
Deferred policy acquisition costs	(758)	117
Reinsurance assets	333,545	(13,717)
Insurance contract liabilities	(357,913)	8,323
Investment contract liabilities	1,301	(2,984)
Other liabilities	(28,370)	44,424
Retirement benefit obligations	(459)	(477)
Cash (used for) generated from operations	(23,166)	34
Income taxes paid	(392)	(245)
Interest received	10,088	16,682
Dividends received	422	342
Net cash (used for) generated from operating activities	(13,048)	16,813
Cash flows from investing activities		
Purchase of investments	(120,956)	(124,137)
Proceeds from sales of investments	122,844	123,209
Acquisition of property and equipment	(361)	(696)
Maturity of fixed deposits	(419)	6,996
Proceeds from sales of intangibles & property and equipment	7	-
Additions to investment properties	(52)	(168)
Acquisition of intangible assets	(3,433)	(4,655)
Net cash (used for) generated from investing activities	(2,370)	549
Cash flows from financing activities		
Cash dividends paid	(3,872)	(3,852)
Interest paid	-	(11)
Loan repaid	-	(162)
Acquisition of treasury shares	-	(613)
Cash dividends paid to non-controlling interest	(1,082)	(1,052)
Cash proceeds on issue of common shares	40	-
Net cash (used for) financing activities	(4,914)	(5,690)
Effect from changes in exchange rates	(156)	83
(Decrease) increase in cash and cash equivalents	(20,488)	11,755
Cash and cash equivalents - beginning of period	205,072	108,896
Cash and cash equivalents - end of period	184,584	120,651

Notes to Consolidated Financial Statements

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars except share and per share amounts

1. Nature of operations and significant accounting policies

BF&M Limited (the "Group") is domiciled in Bermuda as a holding company. It has subsidiaries with operations in 15 countries, with principal offices in Bermuda, Barbados, and the Cayman Islands. The consolidated group's principal business is insurance. 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 reports under International Financial Reporting Standards ("IFRS"). These unaudited interim consolidated financial statements should be read in conjunction with the Group's 2017 consolidated financial statements, as interim financial statements do not include all the information incorporated in annual consolidated financial statements prepared in accordance with IFRS. These condensed financial statements are presented in accordance with the requirements of Section IIA of the Bermuda Stock Exchange Listing Regulations and may not comply fully with the requirements of *IAS 34 - Interim Financial Reporting*.

The accounting policies used in the preparation of the unaudited interim consolidated financial statements are consistent with those adopted in the 2017 consolidated financial statements except as stated in Note 2 below.

All amounts in the unaudited interim consolidated financial statements and notes are shown in thousands of Bermuda dollars unless otherwise stated.

2. New and revised accounting standards

A. New and revised accounting standards adopted in 2018

The Group has applied the following standards, interpretations and amendments for the first time for its annual reporting period commencing 1 January 2018:

- *IFRS 2 Share Based Payments*
- *IFRS 15 Revenues from Contracts with Customers*
- *IAS 40 Investment Property*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to IFRSs 2014-2016 Cycle*

The adoption of these amendments did not have a significant impact on our Interim Consolidated Financial Statements.

In September 2016, the IASB issued Amendments to IFRS 4 to allow insurance entities whose predominant activities are to issue contracts within the scope of *IFRS 4 Insurance Contracts* an optional temporary exemption from applying *IFRS 9 Financial Instruments* until 1 January 2021. The Group qualified and intend to continue to apply *IAS 39 Financial Instruments: Recognition and Measurements*, the existing financial standard, until 1 January 2021.

B. New and revised standards issued in 2018

In March 2018, the IASB issued a revised Conceptual Framework for Financial Reporting which replaces the Conceptual Framework for Financial Reporting issued in 2010. The 2018 Framework includes revised definitions of an asset and a liability, as well as new guidance on measurement, recognition, presentation and disclosure.

Notes to Consolidated Financial Statements

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars except share and per share amounts

It is effective for annual periods beginning on or after 1 January 2020. The Group is assessing the impact the adoption of this framework will have on the Group's Consolidated Financial Statements.

3. 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.

3.1. Health, life, annuity and pension

This operating segment includes group and individual health and accident, life, disability, annuity and pension products offered in Bermuda, Bahamas and Cayman.

3.2. Property and casualty (Bermuda)

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

3.3. Real estate (Bermuda)

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

3.4. 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.

3.5. Cayman Islands and other Caribbean operations

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

3.6. Corporate and other

Corporate operations consist of corporate level income and expenses and returns from investments not allocated to any operating segments. It also represents the combined operations of two holding companies, a management company and an investment management company. The Group manages shared services centrally with most costs allocated based on either net assets, 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 six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars except share and per share amounts

The segmental information provided to the CEO for the reportable segments for the six months ended 30 June 2018 is as follows:

Segments	Health, life, annuity, and pension 2018 \$	Property and casualty 2018 \$	Real estate 2018 \$	Barbados operations 2018 \$	Cayman and other Caribbean operations 2018 \$	Corporate and other 2018 \$	Total 2018 \$
Income earned from external customers	63,095	14,108	1,453	20,003	16,458	(174)	114,943
Investment (loss) income	(6,679)	1,015	-	1,631	(152)	(879)	(5,064)
Total income	56,416	15,123	1,453	21,634	16,306	(1,053)	109,879
Insurance contract benefits and expenses	37,809	3,615	-	9,644	3,841	-	54,909
Commission and acquisition expense	1,353	2,506	-	2,361	8,696	-	14,916
Operating expenses	9,622	5,903	322	7,950	4,251	3,015	31,063
Amortisation expense	1,423	1,625	480	536	337	220	4,621
Interest on loan	-	-	-	-	-	-	-
Income tax expense	-	-	-	383	74	107	564
Non-controlling interest	-	-	453	77	-	138	668
Shareholders' net income	7,152	2,113	698	362	(3,004)	(590)	6,731
Impairment losses recognised in income	(102)	-	-	-	-	1,000	898
Asset and liability disclosures							
Total assets	1,455,886	141,168	26,578	219,985	415,507	12,548	2,271,672
Fixed asset & intangible expenditures	982	1,905	14	858	-	35	3,794
Total liabilities	1,361,453	78,966	890	153,056	363,000	6,521	1,963,886

Notes to Consolidated Financial Statements

For the six months ended 30 June 2018 and 2017 (unaudited)
in thousands of Bermuda dollars except share and per share amounts

The segmental information provided to the CEO for the reportable segments for the six months ended 30 June 2017 is as follows:

Segments	Health, life, annuity, and pension 2017 \$	Property and casualty 2017 \$	Real estate 2017 \$	Barbados operations 2017 \$	Cayman and other Caribbean operations 2017 \$	Corporate and other 2017 \$	Total 2017 \$
Income earned from external customers	60,815	17,707	1,453	21,436	19,534	(426)	120,519
Investment (loss) income	12,708	883	-	1,717	757	(339)	15,726
Total income	73,523	18,590	1,453	23,153	20,291	(765)	136,245
Insurance contract benefits and expenses	51,974	3,277	-	10,091	2,584	-	67,926
Commission and acquisition expense	1,712	1,742	-	3,005	8,991	-	15,450
Operating expenses	10,391	5,532	394	8,743	4,262	3,906	33,228
Amortisation expense	1,138	1,767	544	592	354	202	4,597
Interest on loans	-	-	9	-	-	2	11
Income tax expense	-	-	-	116	129	60	305
Non-controlling interest	-	-	421	80	-	80	581
Shareholders' net income	6,500	4,792	641	245	2,496	(791)	13,883
Impairment losses recognised in income	659	-	-	-	-	-	659
Asset and liability disclosures							
Total assets	1,366,858	149,269	26,004	224,235	170,379	10,285	1,947,030
Fixed asset & intangible expenditures	1,843	2,373	112	766	25	232	5,351
Total liabilities	1,272,390	86,160	1,279	152,572	110,478	4,477	1,627,356

Board of Directors

Gavin R. Arton, Chairman
L. Anthony Joaquin, FCA, Deputy Chairman
Nancy L. Gosling, B.Comm., LL.D., C.G.A.
Christopher Harris, FCAS, CFA, CPCU
Gregory D. Haycock, FCA, J.P.
Gordon J. Henderson, B.A. (Hons.), LL.B.
Catherine S. Lord, B.Sc., J.P.
Garry A. Madeiros, OBE, FCA, J.P.
Paul C. J. Markey
Richard D. Spurling
C.L.F. "Lee" Watchorn, FCIA, FSA
R. John Wight, FCPA, FCA, CPCU

Group Executive Committee

R. John Wight, Group President and Chief Executive Officer
Michael White, Group Chief Financial Officer
Abigail Clifford, Group Chief Administrative Officer
Paul Matthews, Group Chief Information Officer
Andrew Soares, EVP, Head of Life and Health

Directors and Officers Share Interests

The total shares held by Directors and Officers at 30 June 2018 were 363,401 (30 June 2017 - 393,177).

Head Office

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Subsidiary Companies

BF&M General Insurance Company Limited
BF&M Life Insurance Company Limited
Insurance Corporation of Barbados Limited (51.2% ownership)
Island Heritage Insurance Company Ltd.
Island Heritage Retirement Trust Company 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
BF&M Brokers Limited
Island Heritage Insurance Company N.V.
Lawrence Boulevard Holdings Ltd.



BF&M Life | BF&M General



Island Heritage



ICBL



BF&M Limited

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