BF&M LIFE INSURANCE COMPANY LIMITED
BAHAMAS BRANCH

(Registered in Bahamas)

Financial statements
31 December 2015

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

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

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

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

R. John Wight

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

Michael White, FIA
Chief Financial Officer

May 31, 2016

Independent Auditor's Report

To the Shareholder of BF&M Life Insurance Company Limited

We have audited the accompanying financial statements of BF&M Life Insurance Company Limited Bahamas Branch, which comprise the statement of financial position as at 31 December 2015 and the statement of income, statement of changes in head office account and 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 financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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pwc

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of BF&M Life Insurance Company Limited – Bahamas Branch as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter
The comparative information as at, and for the year ended 31 December 2014 has not been audited.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

BF&M LIFE INSURANCE COMPANY LIMITED
BAHAMAS BRANCH
Statement of financial position
As at 31 December 2015
(in thousands of Bahamian dollars)

	Notes	2015 $	Unaudited 2014 $
Assets			
Cash and cash equivalents	6	3,052	1,864
Accounts receivable	9	106	-
Insurance receivables	10	154	53
Regulatory deposit	7	2,007	2,004
Prepaid expenses		20	21
Policyholder loans		1	-
Property and equipment	11	113	126
Total assets		**5,453**	**4,068**
Liabilities			
Other liabilities	12	8	26
Insurance balances payable		107	98
Reinsurance liabilities	13	427	392
Insurance contract liabilities	14	2,718	2,528
Total liabilities		**3,260**	**3,044**
Head office account			
Head office account	3	**2,193**	**1,024**
Total liabilities and head office account		**5,453**	**4,068**

Approved by the Board of Directors

R. John Wight

Director

Director

May 31 2016

Date

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

BF&M LIFE INSURANCE COMPANY LIMITED
BAHAMAS BRANCH
Statement of income
For the year ended 31 December 2015
(in thousands of Bahamian dollars)

	Notes	2015 $	Unaudited 2014 $
Income			
Gross premiums written		1,026	845
Reinsurance ceded		(154)	(106)
Net premiums written		872	739
Investment income	15	3	4
Total income		**875**	**743**
Expenses			
Insurance contracts benefits and expenses	16	530	1,053
Commission expense		488	413
Operating expenses	17	560	345
Amortisation expense		13	6
Total benefits and expenses		**1,591**	**1,817**
Net loss for the year		**(716)**	**(1,074)**

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

BF&M LIFE INSURANCE COMPANY LIMITED
BAHAMAS BRANCH
Statement of changes in head office account
For the year ended 31 December 2015
(in thousands of Bahamian dollars)

	2015 $	Unaudited 2014 $
Balance - beginning of year	1,024	1,309
Net loss	(716)	(1,074)
Other head office net transactions	1,885	789
Balance – end of year	2,193	1,024

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

BF&M LIFE INSURANCE COMPANY LIMITED
BAHAMAS BRANCH
Statement of cash flows
For the year ended 31 December 2015
(in thousands of Bahamian dollars)

	2015 $	Unaudited 2014 $
Cash flows from operating activities		
Net loss	(716)	(1,074)
Adjustments for:		
Investment income	(3)	(4)
Amortisation of property and equipment	13	6
Changes in assets and liabilities		
Insurance receivables	15	(31)
Accounts receivable	(106)	23
Prepaid expenses	1	(21)
Policyholder loans	(1)	20
Other liabilities	42	50
Insurance balances payable	118	-
Reinsurance liabilities	35	200
Insurance contract liabilities	190	853
Regulatory deposit	(3)	(4)
Cash (used for)/generated from operations	(415)	18
Interest received	3	4
Net cash (used for)/generated from operating activities	(412)	22
Cash flows from investing activities		
Acquisition of property and equipment	-	(132)
Net cash used for investing activities	-	(132)
Cash flows from financing activities		
Funding from head office	1,600	789
Net cash generated from financing activities	1,600	789
Increase in cash and cash equivalents	1,188	679
Cash and cash equivalents – beginning of year	1,864	1,185
Cash and cash equivalents – end of year	**3,052**	**1,864**

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

1. NATURE OF THE BRANCH AND ITS BUSINESS

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

A. Statement of compliance

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

B. Basis of preparation

i) Basis of measurement

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

ii) Critical estimates, judgments and assumptions

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

Key sources of estimation uncertainty and areas where significant judgments have been made are listed below and discussed throughout the notes to these financial statements including: the actuarial assumptions used in the valuation of insurance contract liabilities under the Canadian Asset Liability Method ("CALM") require significant judgment and estimation. Key assumptions and considerations in choosing assumptions are discussed in Notes 2H and 14 and sensitivities are discussed in Note 5B.

C. Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

D. Cash and cash equivalents

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

E. Regulatory deposit

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

F. Impairment of assets

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

When loans and receivables assets carried at amortised cost are impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. For all loans and receivables where an impairment loss has occurred if any, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of income. At December 31, 2015 no loans or receivables were determined to be past due or impaired and accordingly no provision for doubtful accounts has been established. When an event occurring after the impairment was recognised causing the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the statement of income.

G. Property and equipment

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

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

Furniture and equipment	5 years – 10 years

The assets' residual values and useful lives and method of depreciation are reviewed at the end of each reporting period and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is considered impaired and it is written down immediately to its recoverable amount. In the event of improvement in the estimated recoverable amount, the related impairment may be reversed. At December 31, 2015 no impairments have been required.

H. Insurance contracts

The Branch issues contracts that transfer insurance risk.

i) Insurance contracts

Insurance contracts are those contracts where the Branch (the insurer) has accepted significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Branch determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. In addition, the Branch considers the proportion of premiums received to the benefit payable if the insured event did occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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

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

a. Reinsurance contracts held related to insurance contracts

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

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

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

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

b. Insurance contract liabilities

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

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

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

ii) Receivables and payables related to insurance contracts

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

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

I. Loans to policyholders

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

J. Revenue recognition

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

i) Premium income

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

ii) Investment income

Investment income is recorded on an accrual basis.

K. Leases

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

3. HEAD OFFICE ACCOUNT

This account is used by the Branch to account for all transactions with the Company as the head office. It is credited for all expenses paid by the head office on behalf of the Branch. It is debited for all cash collected, by the head office on behalf of the Branch. The net amount of these transactions totaled $285 for the 2015 year. During 2015, the Branch received $1,600 in cash from the Company to support its operations. This account represents the net investment by the head office in the branch. The Branch has not been allocated any corporate shared cost by the Company.

4. NEW AND REVISED ACCOUNTING STANDARDS

New and revised International Financial Reporting Standards to be adopted in 2016 or later

The following new standards and amendments to existing standards were issued by the IASB and are expected to be adopted by the Branch in 2016 or later.

IFRS 15 – Revenue Recognition ("IFRS 15") – 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 to in exchange for those goods and services. The Branch is currently assessing the impact of IFRS 15.

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

Annual Improvements 2012-2014 Cycle – This was issued in September 2014 as part of the ongoing process by the IASB to efficiently deal with non-urgent narrow scope amendments to IFRS. The amendments are effective 1 January 2016 and adoption of these amendments are not expected to have a significant impact on the Branch'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 Branch's financial statements.

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

5. MANAGEMENT OF FINANCIAL AND INSURANCE RISK

Risk is managed at the Company level. The Company's primary objective in undertaking risk management activity is to manage risk exposures in line with risk appetite, minimizing its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements, aligned with the Branch's risk appetite, is in place for material exposures. Key management recognises the critical importance of having efficient and effective risk management systems in place.

A. Financial Risks

i) Credit risk

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

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

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

ii) Liquidity risk

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

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

(in thousands of Bahamian dollars)

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

The maturity profile of liabilities at 31 December 2015 is as follows:

	Within 1 year	1-5 years	Over 5 years	Total
	$	$	$	$
Other liabilities	8	-	-	8
Insurance balances payable	107	-	-	107
Insurance contract liabilities – net of reinsurance	25	-	3,120	3,145
Total	**140**	**-**	**3,120**	**3,260**

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

	Within 1 year	1-5 years	Over 5 years	Unaudited Total
	$	$	$	$
Other liabilities	26	-	-	26
Insurance balances payable	98	-	-	98
Insurance contract liabilities – net of reinsurance	16	-	2,904	2,920
Total	**140**	**-**	**2,904**	**3,044**

iii) 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 the Company's matured investments, as the returns available on the new investment may be significantly different from the returns previously achieved. Interest rate risk is managed at the Company level. The Company manages these risks through:

- Asset allocation and diversification of the investment portfolio;
- Utilization of a formal process for managing the matching of the Company's 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.

iv) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Branch is not significantly exposed to foreign exchange risk because of the following:

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

B. Insurance risk

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

Management of life insurance risks

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

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

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

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

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

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

There is considerable judgment required by management in making assumptions in the measurement of insurance 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 insurance risks. This assessment is taken at both business unit level and at Company level where the impact of aggregation of similar risks can be measured. This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

Sensitivity test analysis

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

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

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 Branch, a 1% increase in the best estimate assumption would increase the actuarial liabilities by $6 (unaudited 2014 - $5).

Investment returns

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

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

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 $47 (unaudited 2014 - $68). 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 $47 (unaudited 2014 - $68).

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 at the Company level 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 $64 (unaudited 2014 - $61).

(in thousands of Bahamian dollars)

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 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 $59 (unaudited 2014 - $56).

C. Capital management and regulatory compliance

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

The Bermuda Monetary Authority ("BMA") is the regulator of the Company. Under the laws and regulations of Bermuda, the Company must maintain a minimum amount of statutory capital and surplus based on the enhanced capital requirement. As at 31 December 2015, the Company exceeded the minimum requirement.

The Insurance Commission of the Bahamas ("ICB") is the regulator of the Branch. Under the laws and regulations of Bahamas, the Branch must maintain a minimum margin of solvency. As at 31 December 2015, the Branch exceeded the minimum requirement. The Branch is also required to have a Statutory Fund in place. As of year-end this fund had not been established or funded; as a result there was a shortfall. The Statutory Fund was established and as of May 31, 2016 the Company has transferred $250 into the trust fund. The Company's management have committed to resolve the shortfall.

6. CASH AND CASH EQUIVALENTS

	2015 $	Unaudited 2014 $
Cash at bank and in hand	**3,052**	**1,864**

7. REGULATORY DEPOSITS

	2015	Unaudited 2014
	$	$
Regulatory deposits	2,007	2,004

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

8. FAIR VALUE MEASUREMENT

A. Fair value methodologies and assumptions

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

B. Fair value hierarchy

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

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

i) Level 1

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

ii) Level 2

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

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

iii) Level 3

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

(in thousands of Bahamian dollars)

C. Assets measured at fair value

The following table presents the Branch's assets measured at fair value in the statement of financial position, categorised by level under the fair value hierarchy as at 31 December 2015:

Assets	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	3,052	-		3,052
Regulatory deposits	2,007	-	-	2,007
Total assets	**5,059**	-	-	**5,059**

The following table presents the Branch's assets measured at fair value in the statement of financial position, categorised by level under the fair value hierarchy as at 31 December 2014:

Assets	Level 1 $	Level 2 $	Level 3 $	Unaudited Total $
Cash and cash equivalents	1,864	-	-	1,864
Regulatory deposits	2,004	-	-	2,004
Total assets	**3,868**	-	-	**3,868**

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

D. Assets and liabilities not measured at fair value

Policyholder – The fair value of policyholder loans is reflected as being equal to the carrying value of the loans. These loans are classified as Level 3.

9. ACCOUNTS RECEIVABLE

Accounts receivable comprise of agents' commission advanced of $106 (unaudited 2014: $nil).

10. INSURANCE RECEIVABLES AND OTHER ASSETS

	2015 $	Unaudited 2014 $
Premiums receivable	54	53
Reinsurance recovery	100	-
Total	**154**	**53**

(in thousands of Bahamian dollars)

11. PROPERTY AND EQUIPMENT

Property and equipment is comprised of furniture and equipment.

	2015 $	Unaudited 2014 $
Opening net book value	126	-
Additions	-	132
Amortisation charge	(13)	(6)
Closing net book value	**113**	**126**
Cost	132	132
Accumulated amortisation	(19)	(6)
Net book value	**113**	**126**

12. OTHER LIABILITIES

These include:	2015 $	Unaudited 2014 $
Accounts payable	1	14
Premium tax payable	7	12
Total	**8**	**26**

13. REINSURANCE LIABILITIES

Reinsurance liabilities are comprised of the following:

	2015 $	Unaudited 2014 $
Life insurance contracts:		
Participating		
Individual life	38	25
Non-participating		
Individual life	389	367
Total reinsurance liabilities	**427**	**392**

14. INSURANCE CONTRACT LIABILITIES

A. Assumptions and methodologies

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

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

Investment Returns

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

Mortality

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

Lapse

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

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.

(in thousands of Bahamian dollars)

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.

B. Composition of insurance contract liabilities

	2015 $	Unaudited 2014 $
Gross		
Life insurance contracts:		
Participating		
Individual life	227	176
Non-participating		
Individual life	2,466	2,335
Group life	7	7
Group accident	18	10
Total insurance contract liabilities – gross	**2,718**	**2,528**
Net		
Life insurance contracts:		
Participating		
Individual life	265	201
Non-participating		
Individual life	2,855	2,702
Group life	7	7
Group accident	18	10
Total insurance contract liabilities – net	**3,145**	**2,920**

C. Changes in life insurance contract liabilities

	2015			Unaudited 2014		
	Gross	Ceded	Net	Gross	Ceded	Net
Life insurance contract liabilities - 1 January	**2,528**	**392**	**2,920**	**1,675**	**193**	**1,868**
Change in provision for policy benefits						
Aging and changes in balances	(176)	(34)	(210)	168	(6)	162
Changes in assumptions:						
Investment returns	310	58	368	658	154	812
Mortality	(35)	(7)	(42)	104	27	131
Lapse	(15)	(2)	(17)	21	5	26
Expense	95	18	113	(3)	(1)	(4)
Other	11	2	13	(16)	(4)	(20)
Other changes	-	-	-	(79)	24	(55)
	190	35	225	853	199	1,052
Life insurance contract liabilities – 31 December	**2,718**	**427**	**3,145**	**2,528**	**392**	**2,920**

(in thousands of Bahamian dollars)

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

15. INVESTMENT INCOME

Investment income is comprised of interest earned on the Branch's cash and cash equivalents, regulatory deposit, and policyholder loans. Interest on policyholder loans is negligible for 2015 (unaudited 2014: $nil).

16. INSURANCE CONTRACTS BENEFITS AND EXPENSES

	2015 $	Unaudited 2014 $
Gross life claims and benefits paid	405	1
Reinsurance recoveries	(100)	-
Change in insurance contract liabilities	225	1,052
Total insurance contracts benefits and expenses	**530**	**1,053**

17. OPERATING EXPENSES

	2015 $	Unaudited 2014 $
Wages and salaries	223	88
Office rent, building and utilities costs	145	23
Office supplies, printing, postage	55	29
Compliance, legal, and regulatory	45	30
Professional and consulting fees	29	69
Medical supplies and fees	16	3
Defined pension contribution	9	4
Travel	8	42
Training and development	4	2
Bank charges and foreign currency purchase tax	3	5
Other	23	50
Total	**560**	**345**

(in thousands of Bahamian dollars)

18. COMMITMENTS AND CONTINGENCIES

Operating leases

The Branch has entered into various commercial leases with renewable options on office space. During the year-end 31 December 2015 $132 was recognised in the statement of income (unaudited 2014: $15). The future minimum lease payments payable under non-cancellable leases are as follows:

	2015	Unaudited 2014
	$	$
No later than 1 year	79	76
Later than 1 year and no later than 5 years	225	304
Later than 5 years	-	-
TOTAL	**304**	**380**