FAMILY GUARDIAN INSURANCE COMPANY LIMITED

Financial Statements
31 December 2018

FAMILY GUARDIAN INSURANCE COMPANY LIMITED

TABLE OF CONTENTS

APPOINTED ACTUARY'S REPORT

To the Board of Directors of Family Guardian Insurance Company

I have valued the actuarial liabilities and other policy liabilities of Family Guardian Insurance Company for its statement of financial position at 31 December 2018 and the change in the statement of comprehensive income for the year ended 31 December 2018 in accordance with generally accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion, the amount of the actuarial and other policy liabilities makes appropriate provision for all policyholder obligations and the financial statements of Family Guardian Insurance Company fairly represent the results of the valuation.

Jean Mongrain
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries
Member, Caribbean Actuarial Association
February 8th, 2019

Independent auditors' report

To the Shareholder of Family Guardian Insurance Company Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Family Guardian Insurance Company Limited (the Company) as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

30 March 2019

Family Guardian Insurance Company Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Statement of Financial Position
As at 31 December 2018
(Expressed in Bahamian dollars)

	2018 $	2017 $
ASSETS		
Cash on hand and at banks	3,636,178	10,564,683
Receivables and other assets, net (Notes 7 and 22)	19,504,021	18,714,734
Financial investment assets (Note 6)		
Fair value through profit or loss – affiliate mutual funds	18,626,391	18,179,718
Available-for-sale	11,638,032	12,860,400
Held-to-maturity	143,960,140	137,880,900
Loans	92,844,096	83,717,605
	267,068,659	252,638,623
Reinsurance assets (Note 9)	5,172,056	6,520,948
Property and equipment (Note 8)	25,146,639	24,113,540
Total assets	**320,527,553**	**312,552,528**
LIABILITIES		
Policy liabilities		
Reserves for future policyholders' benefits (Note 9)	213,300,445	207,261,508
Other policyholders' funds (Note 10)	19,027,437	18,072,481
	232,327,882	225,333,989
Payables and accruals (Notes 11, 22 and 23)	12,542,173	16,437,742
Total liabilities	**244,870,055**	**241,771,731**
EQUITY		
Ordinary shares (Note 14)	1,707,462	1,707,462
Share premium (Note 14)	11,401,314	11,401,314
Revaluation reserve (Note 13)	6,707,826	7,294,278
Retained earnings	55,840,896	50,377,743
Total equity	**75,657,498**	**70,780,797**
Total liabilities and equity	**320,527,553**	**312,552,528**

These financial statements were approved by the Board of Directors on 27 March 2019, and signed on its behalf by:

Director

Director

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

Family Guardian Insurance Company Limited

Statement of Comprehensive Income
For the Year Ended 31 December 2018
(Expressed in Bahamian dollars)

	2018 $	2017 $
INCOME		
Gross premium income (Note 15)	107,631,768	103,090,427
Premium ceded to reinsurers (Notes 15 and 22)	(9,101,574)	(10,423,366)
Net premium income (Note 15)	98,530,194	92,667,061
Annuity deposits	16,006,069	7,099,037
Net premium income and annuity deposits	**114,536,263**	**99,766,098**
Interest income (Note 6)	12,674,587	12,106,665
Dividend income	967,132	977,890
Net realised gain on sale of financial assets	53,970	141,683
Net unrealised gain on financial assets – affiliate mutual funds (Note 6)	306,771	526,719
Other operating income	856,693	846,594
Total income	**129,395,416**	**114,365,649**
BENEFITS AND EXPENSES		
Benefits		
Policyholders' benefits (Note 16)	84,982,050	67,832,963
Reinsurance recoveries (Notes 16 and 22)	(8,837,884)	(2,749,895)
Net policyholders' benefits	**76,144,166**	**65,083,068**
Increase in reserves for future policyholders' benefits (Note 9)	7,387,828	7,427,838
Total benefits	**83,531,994**	**72,510,906**
Expenses		
Operating expenses (Notes 19, 20, and 22)	20,120,806	20,483,553
Commissions (Note 22)	15,000,830	11,688,318
Depreciation expense (Note 8)	1,311,143	1,499,524
Bad debt expense, net (Notes 6 and 7)	624,705	572,086
Total expenses	**37,057,484**	**34,243,481**
Total benefits and expenses	**120,589,478**	**106,754,387**
Net income	**8,805,938**	**7,611,262**

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

Family Guardian Insurance Company Limited

Statement of Comprehensive Income
For the Year Ended 31 December 2018
(Expressed in Bahamian dollars)
(Continued)

	2018 $	2017 $
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to net income:		
Net change in fair value on available-for-sale financial assets (Note 13)	(585,222)	1,412,671
Realised gain reclassified to net income (Note 13)	(1,230)	-
Revaluation of property and equipment	-	(239,957)
Items that will not be reclassified subsequently to net income:		
Remeasurement of defined benefit obligation (Note 23)	88,465	(41,008)
Total other comprehensive income	(497,987)	1,131,706
Total comprehensive income	**8,307,951**	**8,742,968**

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

Family Guardian Insurance Company Limited

Statement of Changes in Equity
For the Year Ended 31 December 2018
(Expressed in Bahamian dollars)

	Notes	Ordinary Shares (Note 14) $	Share Premium (Note 14) $	Revaluation Reserve (Note 13) $	Retained Earnings $	Total $
Balance as at 31 December 2016		**1,707,462**	**11,401,314**	**6,121,564**	**45,807,489**	**65,037,829**
Comprehensive income						
Net income		-	-	-	7,611,262	7,611,262
Other comprehensive income	13, 23	-	-	1,172,714	(41,008)	1,131,706
Total comprehensive income		-	-	1,172,714	7,570,254	8,742,968
Transaction with owners						
Dividends declared and paid - ordinary shares ($1.76 per share)		-	-	-	(3,000,000)	(3,000,000)
Total transaction with owners		-	-	-	(3,000,000)	(3,000,000)
Balance as at 31 December 2017		**1,707,462**	**11,401,314**	**7,294,278**	**50,377,743**	**70,780,797**
Comprehensive income						
Net income		-	-	-	8,805,938	8,805,938
Other comprehensive income	13, 23	-	-	(586,452)	88,465	(497,987)
Total comprehensive income		-	-	(586,452)	8,894,403	8,307,951
Transaction with owners						
Dividends declared and paid - ordinary shares ($2.01 per share)		-	-	-	(3,431,250)	(3,431,250)
Total transaction with owners		-	-	-	(3,431,250)	(3,431,250)
Balance as at 31 December 2018		**1,707,462**	**11,401,314**	**6,707,826**	**55,840,896**	**75,657,498**

Family Guardian Insurance Company Limited

Statement of Cash Flows
For the Year Ended 31 December 2018
(Expressed in Bahamian dollars)

	2018	2017
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	8,805,938	7,611,262
Adjustments for:		
Depreciation expense (Note 8)	1,311,143	1,499,524
Unrealised gain on investment assets (Note 6)	(306,771)	(526,719)
Realised gain on sale of investment assets (Note 6)	(53,970)	(141,683)
Decrease in reinsurance assets	1,348,892	1,458,773
Decrease in provisions (Note 6, 7)	(3,785)	(214,300)
Change in reserve for policyholders' benefits	6,038,936	5,969,065
Interest income	(12,674,587)	(12,106,665)
Dividend income	(967,132)	(977,890)
Operating income before working capital changes	3,498,664	2,571,367
(Increase)/decrease in receivables and other assets	(785,842)	3,148,712
Increase in payables and accruals	(3,807,463)	(1,915,928)
Increase in other policyholders' funds	954,956	434,040
Net cash (used in)/from operating activities	**(139,685)**	**4,238,191**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of bank term deposits greater than three months	3,000,000	2,500,000
Purchase of Corporate Bonds (Note 6)	(4,000,000)	(3,000,000)
Redemption of Corporate Bonds (Note 6)	883,351	821,351
Redemption of Preference Shares (Note 6)	223,188	544,950
Purchase of Government Bonds & Notes (Note 6)	(8,318,500)	(21,913,903)
Maturity of Government Bonds & Notes (Note 6)	1,833,381	15,270,765
Purchase of available for sale securities (Note 6)	(80,360)	(18,620)
Proceeds on sale of available for sale securities	770,511	-
Subscription of shares in mutual funds (Note 6)	-	(750,000)
Pension forfeitures reinvested (Note 6)	(139,902)	(173,994)
Net loans issued	(9,071,762)	(1,587,413)
Purchase of property and equipment (Note 8)	(2,344,241)	(3,635,073)
Proceeds from disposal of property, plant, and equipment (Note 8)	-	500
Interest Received	12,919,632	11,987,130
Dividends received	967,132	977,890
Net cash (used in)/from investing activities	**(3,357,570)**	**1,023,583**

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

Family Guardian Insurance Company Limited

Statement of Cash Flows
For the Year Ended 31 December 2018
(Expressed in Bahamian dollars)
(Continued)

	2018	2017
	$	$
CASH FLOWS FROM FINANCING ACTIVITY:		
Dividends paid on ordinary shares	(3,431,250)	(3,000,000)
Net cash used in financing activity	**(3,431,250)**	**(3,000,000)**
Net (decrease)/increase in cash and cash equivalents	(6,928,505)	2,261,774
Cash and cash equivalents, beginning of year	10,564,683	8,302,909
Cash and cash equivalents, end of year	**3,636,178**	**10,564,683**

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)

1. General Information

Family Guardian Insurance Company Limited (the "Company") is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas to sell life insurance, health insurance and annuities and is a wholly owned subsidiary of FamGuard Corporation Limited ("FamGuard" or the Parent), also incorporated in The Bahamas. The Company is licensed as an insurance company under the Insurance Companies Act, 2009.

The registered office of the Company is located at the offices of E. Dawson Roberts & Co., Parliament and Shirley Streets, Nassau, Bahamas.

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS)

New standards, amendments and interpretations adopted by the Company

With the exception of IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) and Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4) standards, amendments and interpretations to published standards, that became effective for the Company's financial year, beginning on 1 January 2018, were either deferred under options provided by the International Accounting Standards Board (IASB), not relevant or not significant to the Company's operations and accordingly did not have a material impact on the Company's accounting policies or financial statements.

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

The Company has adopted IFRS 15, on 1 January 2018. IFRS 15 supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue,* and it applies with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

In accordance with the transition provisions in IFRS 15, the Company has adopted the standard using the modified retrospective approach. The timing or amount of the Company's other income from non-premium income contracts with customers was not significantly impacted by the adoption of IFRS, and therefore, no adjustment was made to opening retained earnings. The impact of IFRS 15 was limited to the new disclosure requirements.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (Continued)

New standards, amendments and interpretations adopted by the Company (continued)

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 9, became effective for the Company's financial year, beginning on 1 January 2018, but was deferred under options provided by the IASB and accordingly is not reflected in the Company's accounting policies or financial statements.

Under the Amendments to IFRS 4, the IASB approved a proposal to allow a temporary deferral of IFRS 9 implementation until the effective date of the new insurance contracts standard.

The temporary exemption permits companies whose activities are predominantly connected with insurance to defer the application of IFRS 9 until the earlier of: (a) the application of the forthcoming insurance contracts Standard; or (b) 1 January 2021. These entities will continue to apply IAS 39 during this period and will be required to make additional disclosures to enable users of financial statements to make comparisons with entities applying IFRS 9.

A company's activities are predominantly connected with insurance if, and only if: (a) the amount of its insurance liabilities is significant compared with its total amount of liabilities; and (b) the percentage of its liabilities connected with insurance relative to its total amount of liabilities is: (i) greater than 90 per cent; or (ii) less than or equal to 90 per cent but greater than 80 per cent, and the company does not engage in a significant activity unconnected with insurance. Liabilities connected with insurance include investment contracts measured at FVPL, and liabilities that arise because the insurer issues, or fulfils obligations arising from, these contracts (such as deferred tax liabilities arising on its insurance contracts).

The Company has assessed its insurance liabilities and concluded that its activities are predominantly connected with insurance contracts. In this regard, management has assessed the following:

- The Company has not previously applied any version of IFRS 9.
- The total carrying amount of liabilities arising from contracts within the scope of IFRS 4 for the year ended 31 December 2015 (the date which precedes the issuance of the amendment to IFRS 4), represents 97% of total liabilities, which is considered significant.
- The total carrying amount of liabilities connected with insurance, which includes liabilities under IFRS 4 and investment contract liabilities measured at fair value under IAS 39, for the year ended 31 December 2015 is equivalent to 97% of total liabilities.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (Continued)

New standards, amendments and interpretations adopted by the Company (continued)

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (continued)

As a result, the Company qualifies for the temporary exemption from IFRS 9 and has applied IAS 39 rather than IFRS 9 to all of its financial assets. There has been no change in the Company's activities that warrant a reassessment of the above information.

The Amendment of IFRS 4 requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interests ("SPPI") and other financial assets separately.

The Company has assessed that the following financial assets have contractual cash flows that meet the SPPI criteria:

- Government bonds
- Corporate bonds
- Preference shares
- Loans
- Receivables and other assets

The fair value and change in fair value of the two groups of financial assets are disclosed in the following table:

	Financial instruments with contractual cash flows that meet the SPPI criteria				
	Amortized Cost	**FVOCI**	**FVTPL**	**Total (1)**	**Other financial instruments (2)**
	$	**$**	**$**	**$**	**$**
Government bonds	120,448,209	-	-	120,448,209	
Corporate bonds	15,184,892	-	-	15,184,892	
Preference shares	8,327,039	-	-	8,327,039	1,766,666
Loans	92,844,096	-	-	92,844,096	-
Receivables & other assets	19,504,021			19,504,021	
Mutual funds & equities			-		28,497,757
Total fair value of financial assets (excluding cash on hand and at banks)	**256,308,257**	**-**	**-**	**256,308,257**	**30,264,423**

(1) For financial assets which pass the SPPI test, there was a fair value change of $Nil.
(2) For other financial instruments, the change in fair value for the year was a loss of $171,086

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (Continued)

New standards, amendments and interpretations adopted by the Company (continued)

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (continued)

Credit risk exposure for assets that pass the SPPI test

The following table represents the entity's exposure to credit risk on financial assets that meet the SPPI criteria:

	31 December 2018						
	Credit Rating						
Exposure to credit risk	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Unrated**	**Total**
	$	$	$	$	$	$	$
Government Bonds	-	-	-	120,448,209	-	-	120,448,209
Corporate Bonds	-	-	-	-	15,184,892	-	15,184,892
Preference Shares	-	-	-	-	8,327,039	-	8,327,039
Loans	-	-	-	-	-	92,844,096	92,844,096
Receivables & other assets	-	-	3,290,574	3,877	-	16,209,570	19,504,021

New standards, amendments and interpretations not yet adopted by the Company

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), IFRS 16 *Leases* (IFRS 16) and IFRS 17 *Insurance Contracts* (IFRS 17), the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Company's accounting policies or financial statements in the financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Company's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. The Company is in the process of assessing the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2021 as noted above.

IFRS 16 defines a lease as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. Lessees are required to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for most leases, with an optional exemption for certain short-term leases and leases of low value assets. The asset will be amortised over the term of the lease, and the lease liability measured at amortised cost. Accounting for lessors does not substantially differ from IAS 17 *Leases*.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (Continued)

New standards, amendments and interpretations not yet adopted by the Company (continued)

The Company has not yet assessed the full impact of adopting IFRS 16, which is effective for financial periods beginning on or after 1 January 2019.

IFRS 17 *Insurance contracts* (IFRS 17) was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the ‘general model’ requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the ‘premium allocation approach’. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the ‘variable fee approach’ applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in net income in the period in which they occur but over the remaining life of the contract.

The new standard is applicable for annual periods beginning on or after 1 January 2021. The standard can be applied retrospectively in accordance with IAS 8, but it also contains a ‘modified retrospective approach’ and a ‘fair value approach’ for transition, depending on the availability of data.

Aside from this general model, the standard provides, as a simplification, the ‘premium allocation approach’. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the ‘variable fee approach’ applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The new standard is applicable for annual periods beginning on or after 1 January 2021. The standard can be applied retrospectively in accordance with IAS 8, but it also contains a ‘modified

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

2. New and Amended International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) (Continued)

New standards, amendments and interpretations not yet adopted by the Company (continued)

retrospective approach' and a 'fair value approach' for transition, depending on the availability of data.

Management is still assessing whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Company.

3. Significant Accounting Policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the IASB.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed separately in Note 4 to the financial statements.

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value though profit or loss, available-for-sale financial assets and certain classes of property and equipment measured at fair value.

(b) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency), the Bahamian dollar. The financial statements are presented in Bahamian dollars, which is also the Company's presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(b) Foreign currency translation (continued)

ii) Transactions and balances (continued)

assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statement of comprehensive income. Translation differences on monetary financial assets measured at fair value through profit or loss are included as part of the fair value gains and losses.

(c) Cash and cash equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents consist of cash on hand, demand balances with banks and bank term deposits with original contractual maturities of three months or less.

(d) Receivables and other assets

Receivables and other assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other assets are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables, the estimated impairment losses are recognised in a separate provision for impairment. The Company considers that there is evidence of impairment if any of the following indicators are present: significant financial difficulties of the debtor; probability that the debtor will enter bankruptcy or financial reorganisation; and default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. Impairment losses are recognised in the statement of comprehensive income within the provision for doubtful accounts.

Subsequent recoveries of amounts previously written off are credited against the provision for doubtful accounts.

(e) Investments and other financial assets

Classification

The Company classifies its financial assets into the following categories: (i) financial assets 'at fair value through profit or loss' (FVTPL), (ii) held-to-maturity (HTM), (iii) loans and receivables and (iv) available-for-sale (AFS). The classification depends on the purpose for which the investments were acquired. Management determines the classification of its

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Classification (continued)

i) Financial assets at fair value through profit or loss

investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Financial assets are classified at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

ii) Held-to-maturity

The Company classifies investments as held-to-maturity if: they are non-derivative financial assets; they are quoted in an active market; they have fixed or determinable payments and fixed maturities; and the Company intends to, and is able to, hold them to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Classification (continued)

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market, other than those that the Company intends to sell in the short term. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Accounts receivables are generally due for settlement within 30 days and therefore are all classified as current.

iv) Available-for-sale

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category. These financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to net income as gains or losses from investment securities.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in net income.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Measurement (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for ‘financial assets at fair value through profit or loss’ – in net income within unrealised gains on investment assets at FVTPL; and
- for available-for-sale financial assets – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in the statement of comprehensive income as part of dividend income when the Company’s right to receive payments is established.

Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of comprehensive income as part of interest income.

Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in net income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument’s fair value using an observable market price.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Impairment (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in net income. Impairment testing of trade receivables is described in Note 4(f).

(f) Loans

Policy loans

Policy loans arise when the Company extends money to the policyholder. Automatic premium loans arise under the terms of a life insurance contract should the premium become past due on the contract.

Policy loans and automatic premium loans are measured at amortised cost. Management assesses provisions at each reporting date based on the difference between the cash surrender value and the outstanding loan balance (principal plus accrued interest).

Mortgages

Mortgage and commercial loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a borrower with no intention of trading the receivable. Mortgage loans are secured by first demand mortgages and provide for monthly repayments at variable interest rates over periods of up to thirty years on residential loans and up to twenty years on commercial loans.

Mortgage and commercial loans are measured at amortised cost, less specific provisions on certain non-current loans and deferred commitment fees. Specific provisions are made on non-current loans for mortgages over three months in arrears, based on management's evaluation of the respective loans. A specific provision for current loans and non-current loans less than three months in arrears is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the mortgage loan. Significant financial difficulties of the borrower, probability that the borrower will enter financial reorganisation, and default or delinquency in payments are considered indicators that the mortgage loan is impaired.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(f) Loans (continued)

Mortgages (continued)

The amount of the specific provision for loans is the difference between the loan's carrying amount and the recoverable amount, being the present value of estimated future cash flows, including recoveries from guarantees and collateral, discounted at the effective interest rate at inception of the loan. The amount of the provision for loan loss is recognised in the statement of comprehensive income. If the amount of the provision subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised in the statement of comprehensive income. Payments on loans past due are first applied to the interest outstanding. Accrued interest on non-performing loans is fully provided for.

(g) Property and equipment

Freehold land and buildings are shown at fair value, based on periodic, normally triennial, valuations by external independent appraisers, less accumulated depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is adjusted to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in revaluation reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in net income. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to net income.

Depreciation is calculated using the straight-line method to allocate the assets' cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

Freehold buildings	2.5% per annum
Furniture and equipment	10% - 20% per annum
Motor vehicles	25% per annum
Computer hardware and software	20% - 33% per annum
Leasehold improvements	shorter of period of the leases and estimated economic life of the improvements

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(g) Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(h) Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Financial liabilities

Financial liabilities are classified at initial recognition, as financial liabilities at FVTPL, loans and borrowings or trade and other payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and insurance payables, net of directly attributable transaction costs. The Company's financial liabilities include insurance contracts without a Discretionary Participation Feature (DPF), trade and other payables.

Subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVTPL includes financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has designated insurance contracts without DPF as financial liabilities at FVTPL upon initial recognition.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(i) Financial liabilities (continued)

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest. The effective interest amortisation is included in finance cost in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(j) Other provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(k) Employee benefits

i) Pension obligations

The Company has a defined contribution pension plan for eligible agents and employees whereby the Company pays contributions to a pension plan separately administered by the Company. The Company has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their gross earnings and commissions and the Company contributes 5% of eligible earnings. The Company's contributions to the defined contribution pension plan are recognised in the statement of comprehensive income in the year to which they relate.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(k) Employee benefits

i) Post-retirement medical benefit plan

For the post-retirement medical benefit plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. The post-retirement plan is a contributory plan. Retirees are assumed to pay the full retiree costs, less the Parent's subsidy. The employee's subsidy for medical costs is set to a fixed dollar amount.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement.

The Company presents the first two components of the defined benefit costs in the statement of comprehensive income in operating expenses. Curtailment gains and losses are accounted for as past service costs. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to the statement of comprehensive income.

Past service cost is recognised in the statement of comprehensive income in the period of a plan amendment.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(l) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(m) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

(n) Reserves for insurance contracts

The provisions for actuarial liabilities of long-term insurance contracts is determined using accepted actuarial practices established by the Canadian Institute are of Actuaries ("CIA") and are determined by the Company's Appointed Actuary. These liabilities consist of the amounts that, together with future premiums and investment income, are required to provide for future policy benefits and expenses on insurance and annuity contracts.

The Company uses the Canadian Asset Liability Method ("CALM") in computing its actuarial reserves on long-term contracts. CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations.

The Company segments assets to support liabilities by major product line and establishes investment strategies for each liability segment. Projected net cash flows from these assets and the policy liabilities being supported by these assets are combined with projected cash flows from future asset purchases to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments. Investment return assumptions for each asset class make provision for expected future asset credit loss, expected investment management expenses and a margin for adverse deviation.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(n) Reserves for insurance contracts (continued)

Liabilities for deferred annuity policies with a 5% minimum interest rate guarantee are calculated using CALM. Liabilities for other deferred annuities are computed as the value of accrued invested funds. Reserves for immediate payout annuities are calculated using CALM.

Claims reserves for Company health policies are estimated from incurred claims and the history of prior claim payments. Liabilities for other short-term health policies, renewable at the option of the Company, comprise unearned premiums plus a contingency reserve for claims.

Liabilities for deferred annuity policies with a 5% minimum interest rate guarantee are calculated using CALM. Liabilities for other deferred annuities are computed as the value of accrued invested funds. Reserves for immediate payout annuities are calculated using CALM.

(o) Insurance contracts

i) Classification

The Company issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

A number of insurance contracts contain a DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:

  (i) the performance or a specified pool of contracts or a specified type of contract; and
  (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Company.

The amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Appointed Actuary.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(o) Insurance contracts (continued)

ii) Recognition and measurement

Insurance contracts including those with a DPF are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Short-term insurance contracts

These contracts are group and individual health and hospitalisation contracts, and short-duration life insurance contracts. These contracts protect policyholders from the consequences of events (such as death, disability or sickness) that would affect the ability of the policyholder or his/her dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or are linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

Premiums are recognised as revenue proportionately over the period of coverage. Claims and loss adjustment expenses are recognised in the statement of comprehensive income as incurred, based on the estimated liability for compensation owed to policyholders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date, even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

Long-term insurance contracts with fixed and guaranteed terms

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the policyholder. Premiums are shown before deduction of commission.

Benefits payable to beneficiaries are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred is recorded when the premiums are recognised. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income. A margin for adverse deviations is included in the assumptions.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(o) Insurance contracts (continued)

ii) Recognition and measurement (continued)

Long-term insurance contracts without fixed and guaranteed terms (continued)

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the policyholder. These liabilities, however, are increased by credited interest (in the case of universal life contracts) or change in the unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Premiums are shown before deduction of commission.

Benefits payable to beneficiaries are recorded as an expense when they are incurred.

Liabilities for universal life policies, including unit-linked contracts and deferred annuities with a 5% minimum interest rate guarantee, are based on assumptions as to future mortality, persistency, maintenance expenses, investment income, and crediting interest rates. A margin for adverse deviations is included in the assumptions. Liabilities for other deferred annuities are computed as the value of accrued invested funds.

Long-term insurance contracts with fixed and guaranteed terms and with DPF

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the policyholder. Premiums are shown before deduction of commission.

Benefits payable to beneficiaries are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred is recorded when the premiums are recognised. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income. A margin for adverse deviations is included in the assumptions.

In addition, these contracts also participate in the profits of the Company. As the Company declares the bonus to be paid, it is credited to the individual policyholders.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(p) Reinsurance transactions

In the normal course of its life and health insurance business, the Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Contracts entered into that meet the classification requirements for insurance contracts in Note 3(o) are classified as reinsurance contracts held.

The benefits to which the Company is entitled under reinsurance contracts held are recognised as reinsurance recoveries. These assets consist of short-term balances due from reinsurers and are classified within receivables and other assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Reinsurance payables are recorded in accounts payable and accruals in the statement of financial position.

(q) Non-premium revenue recognition

Dividend income from investments is recognised when the shareholder's right to receive payments has been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Income which forms an integral part of the effective interest rate of a loan (i.e. commitment fees) is deferred and recognised as income over the life of the loan.

All other non-premium income is recognised on an accrual basis of accounting when the service has been provided and the performance obligation met.

(r) Commission expense

Commission expense is comprised of commissions earned by the Company's sales force, external agents and brokers on insurance and investment products sold. Commission expense is recognised when incurred.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(s) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the period of the lease.

(t) Policy dividends on deposits

Policy dividends on deposits comprise dividends declared on policies, together with accrued interest, but not withdrawn from the Company.

(u) Taxation

Under the current laws of The Bahamas, the country of domicile of the Company, there are no income, capital gains or other corporate taxes imposed. The Company is subject to tax on gross premium income at a rate of 3% and Value Added Taxes, applied at a rate of 7.5% up to 30 June 2018 and at 12% commencing 1 July 2018 on goods and services purchased.

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised in the financial statements in the year in which the dividends are declared by the Board of Directors. Dividends declared after the year end, but before the approval of the financial statements, are disclosed as a subsequent event.

(w) Related parties

Related parties are defined as follows:

(i) Controlling shareholders;
(ii) Subsidiaries;
(iii) Associates;
(iv) Individuals owning, directly or indirectly, an interest in the voting power that gives them significant influence over the enterprise, i.e. normally more than 20% of shares (plus close family members of such individuals);
(v) Key management personnel - persons who have authority for planning, directing and controlling the enterprise (plus close family members of such individuals);
(vi) Directors; and
(vii) Enterprises owned by the individuals described in (i), (iv), (v), and (vi).

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described above, judgements made by management that have the most significant effect on the amounts recognised in the financial statements are discussed below.

a. Classification of insurance contracts

The classification of contracts with policyholders is dependent on critical judgements made by the Company. Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at inception of the contract. A contract is classified as an insurance contract if it transfers significant risk. As a general rule, the Company defines as a significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Key sources of estimation uncertainty-critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts included in or affecting the Company's financial statements and related disclosure must be estimated, requiring the Company to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. A ''critical accounting estimate'' is one which is both important to the portrayal of the Company's financial condition and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company evaluates such estimates on an ongoing basis, based upon historical results and experience, prevailing market prices, current financial information and audited statements, changes in market conditions, consultation with experts, trends and other methods considered reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty-critical accounting estimates (continued)

a. *Estimates of future payments and premiums arising from long-term insurance contracts.*

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Appointed Actuary. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk.

b. *Estimates of future payments arising from short-term insurance contracts.*

The determination of the liabilities under short-term insurance contracts is dependent on estimates made by the Company. Estimates are made for the expected cost of claims incurred but not yet reported (IBNR) at the statement of financial position date.

A significant period of time can pass before a claim cost can be established with certainty. As a result, the claim cost is estimated using various actuarial claims projection techniques. The main assumption used in applying these techniques is the Company's past claims experience, which is used to project future claims cost.

c. *Impairment of non-financial assets*

The Company has made significant investments in non-financial assets. These assets are tested for impairment when circumstances indicate there may be potential impairment. Factors considered important which could trigger an impairment review include the following: significant fall in market values; significant underperformance relative to historical or projected future operating results; significant changes in the use of the assets or the strategy for the overall business, including assets that are decided to be phased out or replaced and assets that are damaged or taken out of use; significant negative industry or economic trends; and significant cost overruns in the development of assets.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty-critical accounting estimates (continued)

c. Impairment of non-financial assets (continued)

Estimating recoverable amounts of assets must, in part, be based on management evaluations, including estimates of future performance, revenue generating capacity of the assets, assumptions of the future market conditions and the success in marketing of new products and services. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

d. Revaluation of property and equipment

The Company measures its land and buildings at revalued amounts triennially, with changes in fair value being recognised in the revaluation reserve in the statement of financial position. An independent valuation of the Company's land and buildings is performed to determine the fair value with reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location, and the condition of the respective property.

e. Loan loss provision

To cover any shortfalls from mortgage loans, the Company records specific provisions on non-current loans, based on the assessed value of the underlying collateral and other determinants of net realisable value, including independent appraisal and an assessment of the forced sale value of the underlying collateral.

f. Impairment of financial assets

The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement.

In making this judgement, the Company evaluates, among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty-critical accounting estimates (continued)

g. Retirement benefit obligation

The Company's retirement benefit obligation is discounted at a rate determined by reference to market yields at the end of the reporting period on high quality Government bonds. Significant judgment is required when determining the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include whether there is a deep market in the bonds, quality of the bonds and the identification of outliers which are excluded.

Other key assumptions for retirement benefit obligations include medical, dental and vision cost trend rates and mortality rates. Medical rates are determined by the current year's average per capita costs for all participants. 2018 average per capita costs for retirees was estimated by age groupings.

The Company bases the estimates for mortality on tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience.

h. Fair value of securities not quoted in an active market

The fair value of securities not quoted in an active market may be determined by the Company based on historical experience and other factors that are considered to be relevant. Where no market data is available, the Company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily recent similar arm's length market transactions if available, and reference to the current fair value of another instrument that is substantially the same.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimate is revised based on the latest available information.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk

The Company issues contracts that transfer insurance risk, financial risk or both. The Company's activities expose it to a variety of financial risks, including the effects of changes in equity market prices and interest rates. The Company's overall risk management approach focuses on the unpredictability of insured events and financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

a. Fair value of financial assets and liabilities

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of management, the estimated fair values of financial assets and financial liabilities at the statement of financial position date were not materially different from their carrying values.

The following table depicts the classification of financial assets and financial liabilities:

			2018			
	FVTPL	Loans and Receivables	Held-To-Maturity	Available-For-Sale	All Other Financial Liabilities	Total
	$	$	$	$	$	$
FINANCIAL ASSETS						
Cash on hand and at banks	-	3,636,178	-	-	-	3,636,178
Financial investment assets	18,626,391	92,844,096	143,960,140	11,638,032	-	267,068,659
Reinsurance assets	-	5,172,056	-	-	-	5,172,056
Receivables and other assets	-	19,118,883	-	-	-	19,118,883
Total financial assets	**18,626,391**	**120,771,214**	**143,960,140**	**11,638,032**	**-**	**294,995,776**
FINANCIAL LIABILITIES						
Other policyholders' funds	-	-	-	-	19,027,437	19,027,437
Payables and accruals	-	-	-	-	12,542,173	12,542,173
Total financial liabilities	**-**	**-**	**-**	**-**	**31,569,610**	**31,569,610**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

a. Fair value of financial assets and liabilities (continued)

	2017					
	FVTPL	Loans and Receivables	Held-To-Maturity	Available-For-Sale	All Other Financial Liabilities	Total
FINANCIAL ASSETS	**$**	**$**	**$**	**$**	**$**	**$**
Cash on hand and at banks	-	10,564,683	-	-	-	10,564,683
Financial investment assets	18,179,718	83,717,605	137,880,900	12,860,400	-	252,638,623
Reinsurance assets	-	6,520,948	-	-	-	6,520,948
Receivables and other assets	-	18,352,077	-	-	-	18,352,077
Total Financial Assets	**18,179,718**	**119,155,313**	**137,880,900**	**12,860,400**	**-**	**288,076,331**
FINANCIAL LIABILITIES						
Other policyholders' funds	-	-	-	-	18,072,481	18,072,481
Payables and accruals	-	-	-	-	16,437,742	16,437,742
Total Financial Liabilities	-	-	-	-	**34,510,223**	**34,510,223**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable. These instruments are reported at fair value on a recurring basis (i.e., at the end of each reporting period).

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

a. Fair value of financial assets and liabilities (continued)

2018

Financial Assets	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
FVTPL	18,626,391	-	-	18,626,391
Available-for-sale	-	11,638,032	-	11,638,032
	18,626,391	**11,638,032**	**-**	**30,264,423**

2017

Financial Assets	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
FVTPL	18,179,718	-	-	18,179,718
Available-for-sale	5,158,509	7,701,891	-	12,860,400
	23,338,227	**7,701,891**	**-**	**31,040,118**

The Company did not have any financial instruments classified as Level 3 as at 31 December 2018. The available for sale investments transferred out of level 1 relate to positions whose trading was inactive as at 31 December 2018.

b. 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. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts, where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than expected. Insurance events are random and the actual number and amounts of claims and benefits will vary from year to year from the estimate established via statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

The Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Under the excess coverage contracts, the Company retains a range of $75,000 to $100,000 (2017: $75,000 to $100,000) coverage per individual life and individual accidental death benefit. Under the quota share contracts, the Company retains 50% of the face amount per individual life and accidental death benefit up to a maximum of $100,000 on any one life insured. Individual and group medical retention limit is retained at $225,000 (2017: $175,000) per member.

Long-term insurance contracts

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics, such as AIDS, and wide ranging lifestyle changes, such as changes in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type and level of insured benefits.

The Company's underwriting strategy includes medical selection with benefits limited to reflect the health condition of applicants and retention limits on any single life insured.

The table below indicates the concentration of insured benefits across four bands of insured benefits per coverage insured.

$	**2018** **$**	**2017** **$**
0 – 9,999	122,970,923	118,849,188
10,000 – 24,999	360,660,728	331,205,870
25,000 – 49,999	134,366,477	125,633,283
50,000 and over	1,008,800,186	1,004,349,680
	1,626,798,314	**1,580,038,021**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

Short-term insurance contracts

The following tables show the estimate of claims by calendar year, net of reinsurance, for the past 10 years. The top half of the table shows how the estimate of total incurred claims for each calendar year varies based on when the estimate is made. Generally, the estimate becomes closer to the final reality in each subsequent year, as a smaller percentage of claims remain unpaid. The lower portion of the table reconciles the current estimate of incurred claims (less those claims already paid) with the amount included in the statement of financial position as at 31 December 2018. (All amounts are in $000's).

	Year claim is incurred										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Estimate of ultimate gross claims											
End of year incurred	38,434	42,755	40,557	36,610	34,757	36,567	43,834	39,830	45,109	55,709	414,162
One year later	40,322	43,813	39,517	35,453	33,654	35,711	43,971	40,703	46,900		
Two years later	40,362	43,873	39,564	35,382	33,570	35,885	43,968	40,820	-		
Three years later	40,408	43,912	39,547	35,301	33,611	35,888	44,072	-			
Four years later	40,435	43,902	39,541	35,315	33,571	35,900	-				
Current (31 December 2018) estimate of ultimate claims	40,435	43,902	39,541	35,315	33,571	35,900	44,072	40,820	46,900	55,709	416,165
Cumulative payments (through 31 December 2018)	40,435	43,902	39,541	35,315	33,571	35,900	44,072	40,818	46,858	48,559	408,971
Current (December 31 2018) statement of financial position liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**42**	**7,150**	**7,194**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

Short-term insurance contracts (continued)

	Year claim is incurred										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Estimate of ultimate net claims											
End of year incurred	36,431	38,848	37,645	34,607	32,832	34,718	41,712	38,260	42,528	51,055	388,636
One year later	36,534	38,407	36,260	33,963	31,617	33,682	41,296	38,927	42,846		
Two years later	36,542	38,443	36,308	34,157	31,496	33,807	41,294	39,024	-		
Three years later	36,590	38,482	36,294	34,077	31,533	33,812	41,397	-			
Four years later	36,617	38,475	36,289	34,091	31,495	33,824	-				
Current (31 December 2018) estimate of ultimate claims	36,617	38,475	36,289	34,091	31,495	33,824	41,397	39,024	42,846	51,055	385,113
Cumulative payments (through 31 December 2018)	36,617	38,475	36,289	34,091	31,495	33,824	41,397	39,021	42,807	44,450	378,466
Current (December 31 2018) statement of financial position liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**39**	**6,605**	**6,647**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

c. Market risk

Cash flow and fair value interest rate risk

Cash flow risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly.

Mortgage loans and held-to-maturity financial assets are subject to floating interest rates. If future interest rates were increased or decreased by 1%, interest income in the statement of comprehensive income would increase or decrease by $2,191,240 (2017: $2,020,685).

d. Price risk

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Company manages its risk through the Investment Committee, which monitors the price movement of securities on The Bahamas International Securities Exchange (BISX).

If future market prices were to increase or decrease by 10% this would result in an increase or decrease in other comprehensive income of $987,137 (2017: $1,059,364) and net income of $1,862,639 (2017: $1,817,972). Management mitigates this risk by diversification of its portfolio.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

e. Credit risk

The Company has exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Key areas represented by aggregate amounts disclosed on the face of the statement of financial position where the Company is exposed to credit risk are:

- Term deposits placed with banks
- Mortgage loans and loans to policyholders
- Amounts due from reinsurers
- Amounts due from insurance policyholders

The Company's term deposits are mainly placed with well-known high quality banks. Mortgage loans and loans to policyholders are fully collateralised by the relevant property assets and cash surrender values respectively.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their publicly available financial information prior to finalisation of any contract.

The Company has one main reinsurer for its long-term insurance contracts, a large multinational corporation that has an AM Best Rating of A+ and a Standard & Poors (S&P) rating of AA-.

f. Liquidity risk

The Company is exposed to daily calls on its available cash resources from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The Company maintains sufficient liquidity (cash and marketable securities) to meet all contractual liabilities as they fall due. The following table shows the undiscounted payout pattern, net of premiums, of the actuarial liabilities.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

f. Liquidity risk (continued)

The following table shows the undiscounted payout pattern, net of premiums, of the actuarial liabilities.

	2018					
	Not Classified	**Up to 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Short-term insurance contracts	-	6,921,971	-	-	-	6,921,971
Long-term with fixed and guaranteed terms	848,488	(6,883,999)	(10,297,131)	11,912,134	334,996,107	330,575,599
Long-term without fixed and guaranteed terms	71,992,781	860,017	5,092,305	9,995,838	63,713,842	151,654,783
Long-term without fixed and guaranteed terms and with DPF	-	479,625	3,593,414	7,132,191	54,729,402	65,934,632
Total	**72,841,269**	**1,377,614**	**(1,611,412)**	**29,040,163**	**453,439,351**	**555,086,985**

	2017					
	Not Classified	**Up to 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Short-term insurance contracts	-	5,968,571	-	-	-	5,968,571
Long-term with fixed and guaranteed terms	810,861	(5,980,713)	(6,819,395)	13,872,755	291,701,738	293,585,246
Long-term without fixed and guaranteed terms	73,235,467	704,738	6,549,893	9,459,629	28,908,026	118,857,753
Long-term without fixed and guaranteed terms and with DPF	-	472,583	3,691,657	7,168,946	52,696,271	64,029,457
Total	**74,046,328**	**1,165,179**	**3,422,155**	**30,501,330**	**373,306,035**	**482,441,027**

Amounts not classified consist mainly of deferred annuity fund balances.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

f. Liquidity risk (continued)

The following table shows the expected recovery or settlement of financial assets and liabilities:

	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
	$	$	$	$	$	$
ASSETS						
Cash & bank balance	-	3,636,178	-	-	-	3,636,178
Reinsurance Assets	5,172,056	-	-	-	-	5,172,056
Receivables & other	12,440,081	11,582,157	-	-	-	24,022,238
Investment Securities						
FVTPL securities	-	18,626,391	-	-	-	18,626,391
AFS Securities	-	11,638,032	-	-	-	11,638,032
Held to Maturity	-	14,103,622	34,159,250	17,106,700	78,590,568	143,960,140
Loans	14,636,642	1,295,730	4,843,782	12,350,215	59,717,727	92,844,096
	32,248,779	60,882,110	39,003,032	29,456,915	138,308,295	299,899,131
LIABILITIES						
Other policyholders'	-	19,027,437	-	-	-	19,027,437
Payables and accrual	-	12,542,173	-	-	-	12,542,173
	-	31,569,610	-	-	-	31,569,610

	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
	$	$	$	$	$	$
ASSETS						
Cash & bank balance	-	10,564,683	-	-	-	10,564,683
Reinsurance Assets	6,520,948	-	-	-	-	6,520,948
Receivables & other	11,135,045	7,579,689	-	-	-	18,714,734
Investment Securities						
FVTPL securities	-	18,179,718	-	-	-	18,179,718
AFS Securities	-	12,860,400	-	-	-	12,860,400
Held to Maturity	-	9,444,562	35,661,800	21,099,200	71,675,338	137,880,900
Loans	14,008,188	3,706,921	1,872,685	21,680,349	42,449,462	83,717,605
	31,664,181	62,335,973	37,534,485	42,779,549	114,124,800	288,438,987
LIABILITIES						
Other policyholders'	-	18,072,481	-	-	-	18,072,481
Payables and accrual	-	16,437,742	-	-	-	16,437,742
	-	34,510,223	-	-	-	34,510,223

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk (Continued)

g. Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2017.

External capital requirements are enforced and regulated by the Insurance Commission of The Bahamas. These requirements are established to ensure sufficient solvency margins are maintained. The Company exceeded both the statutory margin and minimum ratio requirements of qualified admissible assets.

In addition to the solvency margins required by the regulators, the Company measures its solvency ratio using Canadian reserve methodologies and solvency standards as measured by the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). At 31 December 2018, the Company's MCCSR ratio exceeded the required target of 150%.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

h. Operational risk

Operational risk relates to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is mitigated by communicated and enforced policies and procedures, staff training, and ongoing monitoring and review by management, as well as ongoing internal audit processes.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

6. Financial Investment Assets

Financial investment assets comprise the following:

	2018	2017
	$	$
(a) Fair value through profit or loss (FVTPL):		
At beginning of year	18,179,718	16,729,005
Pension forfeitures reinvested	139,902	173,994
Purchase of equities	-	750,000
Net change in unrealised gain on investments at FVTPL	306,771	526,719
At end of year	**18,626,391**	**18,179,718**
(b) Available-for-sale (AFS):		
At beginning of year	10,593,642	9,162,351
Purchase of equities	552,935	18,620
Sale of equities	(689,989)	
Net change in fair value on AFS	(585,222)	1,412,671
	9,871,366	10,593,642
Investment in redeemable preference shares	2,241,000	2,670,000
Redemption of redeemable preference shares	(500,000)	(429,000)
Add: Accrued interest receivable	25,666	25,758
	1,766,666	2,266,758
At end of year	**11,638,032**	**12,860,400**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

6. Financial Investment Assets (Continued)

	2018	2017
	$	$
(c) Held-to-maturity (HTM):		
Bahamas Government bonds	100,852,143	94,367,024
Bahamas Mortgage Corporation bonds	9,300,000	9,300,000
Education Loan Authority bonds	6,300,000	6,300,000
Clifton Heritage bonds	2,004,800	2,004,800
Bridge Authority bonds	307,400	307,400
Government bonds, at amortised cost	118,764,343	112,279,224
Add: Accrued interest receivable	1,683,866	1,572,003
	120,448,209	113,851,227
Redeemable preferred shares, at amortised cost	8,288,412	8,511,600
Add: Accrued interest receivable	38,627	38,447
	8,327,039	8,550,047
Corporate bonds, at amortised cost	15,070,264	11,953,614
Add: Accrued interest receivable	114,628	123,711
	15,184,892	12,077,325
Other bank term deposits, at amortised cost	-	3,000,000
Add: Accrued interest receivable	-	402,301
	-	3,402,301
At end of year	**143,960,140**	**137,880,900**

Investments in equities are comprise of ordinary shares in Bahamian companies and mutual funds that are listed on The Bahamas International Securities Exchange (BISX).

Held-to-maturity securities have interest rates ranging from 4.25 % to 8.50 % per annum (2017: 2.63% to 8.50%) and scheduled maturities between 2019 and 2048 (2017: 2018 and 2045).

In 2011, in accordance with the Insurance Act 2005 (Amended), the Company established a Trust Account (the “Family Guardian Statutory Deposit Trust”) in which $2,000,000 of Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes, however, the interest income on these stocks accrues to the Company.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

6. Financial Investment Assets (Continued)

In accordance with amendments dated 13 October 2008 to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, the Company opted to reclassify its investment in equities at that date from fair value through profit or loss to available-for-sale with effect from 1 July 2008.

The carrying value of the investments in the reclassified equities is equivalent to the fair value and as at 31 December, 2018 is $8,639,904 (2017: $9,975,686). The accumulated gain or fair value loss that would have been recognised in net income since the reclassification, had the investment in equities not been reclassified, is $2,277,947 gain (2017: $3,613,729 gain) taking into consideration impairment losses previously transferred to net income.

	2018	2017
	$	$
(d) Loans:		
(i) Policy loans comprise:		
Policy loans	13,552,372	12,993,371
Automatic premium loans	3,502,724	3,403,348
	16,787,273	16,241,477
Less: Specific provision for credit risk	(267,823)	(155,241)
Add: Accrued interest receivable	871,565	841,171
	17,658,838	17,082,648
(ii) Mortgage loans comprise:		
Commercial:		
Current	8,471,708	6,001,107
Past due but not impaired	-	144,737
Over 90 days	554,360	529,795
Residential:		
Current	58,317,839	47,792,128
Past due but not impaired	6,805,115	9,713,991
Over 90 days	2,851,950	4,375,565
	77,000,972	68,557,323
Less: Specific provision for credit risk	(1,729,834)	(1,842,757)
Deferred commitment fees	(420,797)	(390,532)
	74,850,341	66,324,034
Add: Accrued interest receivable	334,917	310,923
	75,185,258	66,634,957
Total loans	**92,844,096**	**83,717,605**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

6. Financial Investment Assets (Continued)

Policy loans and automatic premium loans (APLs) are allowed on Ordinary Life policies. An interest rate ranging from 0% to 11 % (2017: 0% to 11%) per annum is charged on policy loans and APLs.

Movements in the mortgage loan loss provisions are as follows:

	$
Balance as at 31 December 2016	2,057,057
Bad debt expense	335,628
Recovery of bad debt	(549,928)
Balance as at 31 December 2017	1,842,757
Bad debt expense	369,832
Recovery of bad debt	(482,755)
Balance as at 31 December 2018	**1,729,834**

An interest rate of 5.25% per annum (2017: 5.25%) is charged on residential mortgage loans to Directors, officers and staff with two or more years of service. Included in total loans are mortgages to related parties which carry an interest rates between 5.25% to 6.50% in the amount of $7,909,234 (2017: $5,432,822).

During the year, mortgages to related parties increased by $2,656,243. Related party interest income from mortgages for the year ended 31 December 2018 is $568,062 (2017: $363,455) and related party interest receivable on mortgages as at 31 December 2018 is $41,568 (2017: $27,965).

As at 31 December 2018, the Company had non-performing mortgage loans of $3,406,310 (2017: $4,905,360) for which interest of $1,390,636 (2017: $1,350,995) had not been recognised in the statement of comprehensive income. Management has determined that mortgage loans totaling $11,490,618 (2017: $9,858,728) are past due but not considered impaired.

During the year, the Company sold properties under power of sale. The fair value of the collateral sold under power of sale was $424,000 (2017: $1,120,500). The unrecoverable portion of the principal was provided for and is included in bad debt expense in the statement of comprehensive income.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

7. Receivables and Other Assets

Receivables and other assets comprise:

	2018	2017
	$	$
Reinsurance recoveries	7,536,726	7,251,681
Intercompany receivables	4,518,217	3,520,707
Premium receivables	4,849,445	5,127,803
Other receivables and other assets	2,256,143	2,496,978
Prepayments and deposits	385,138	362,657
	19,545,669	18,759,826
Less: allowance for doubtful accounts	(41,648)	(45,092)
	19,504,021	**18,714,734**

The movement in allowance for doubtful accounts is as follows:

	2018	2017
	$	$
Balance, beginning of year	45,092	15,120
Bad debt expense	134,784	317,448
Recovery of bad debt	(138,228)	(287,476)
Balance, end of year	**41,648**	**45,092**

The amounts due from related parties represent the net result of transactions between these parties. The balances are unsecured, non-interest bearing and have no fixed terms of repayment.

Due to the short-term nature of the accounts receivable, their carrying amounts are considered to be the same as their fair values.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

8. Property and Equipment

The movement of property and equipment for the year is as follows:

	2018							
	Freehold Land	**Freehold Buildings**	**Furniture & Equipment**	**Motor Vehicles**	**Computer Hardware & Software**	**Leasehold Improvements**	**Work in Progress**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Year ended 31 December 2018								
Opening net book amount	3,441,000	14,132,664	618,126	19,473	1,215,252	39,496	4,647,529	24,113,540
Additions	-	78,237	50,809	20,618	246,198	-	1,948,379	2,344,241
Revaluations	-	-	-	-	-	-	-	-
Transfers	-	39,496	-	-	-	(39,496)	-	-
Disposals - cost	-	-	-	-	-	-	-	-
Depreciation charge	-	(702,112)	(238,439)	(6,211)	(364,381)	-	-	(1,311,143)
Disposals - accumulated depreciation	-	-	-	-	-	-	-	-
Closing net book amount	**3,441,000**	**13,548,285**	**430,496**	**33,881**	**1,097,069**	**-**	**6,595,908**	**25,146,639**
As at 31 December 2018								
Cost or revaluation	3,441,000	14,250,397	5,246,803	98,690	5,253,953	1,032,041	4,647,529	33,970,413
Work in progress	-	-	-	-	-	-	1,948,379	1,948,379
Accumulated depreciation	-	(702,112)	(4,816,307)	(64,810)	(4,156,884)	(1,032,041)	-	(10,772,153)
Net book amount	**3,441,000**	**13,548,285**	**430,496**	**33,880**	**1,097,069**	**-**	**6,595,908**	**25,146,639**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

8. Property and Equipment (Continued)

The movement of property and equipment for the year is as follows:

	2017							
	Freehold Land	Freehold Buildings	Furniture & Equipment	Motor Vehicles	Computer Hardware & Software	Leasehold Improvements	Work in Progress	Total
	$	$	$	$	$	$	$	$
Year ended 31 December 2017								
Opening net book amount	2,351,000	4,842,351	805,315	26,917	1,230,960	679,417	1,982,788	11,918,748
Additions	1,100,000	9,281,250	86,736	-	112,387	5,894	3,430,056	14,016,323
Revaluations	(10,000)	(229,957)	-	-	-	-	-	(239,957)
Transfers	-	787,656	161,912	-	317,684	(501,937)	(765,315)	-
Disposals - cost	-	-	-	-	(500)	(152,958)	-	(153,458)
Depreciation charge	-	(548,636)	(435,837)	(7,444)	(445,279)	(62,328)	-	(1,499,524)
Disposals - accumulated depreciation	-	-	-	-	-	71,408	-	71,408
Closing net book amount	**3,441,000**	**14,132,664**	**618,126**	**19,473**	**1,215,252**	**39,496**	**4,647,529**	**24,113,540**
As at 31 December 2017								
Cost or revaluation	3,441,000	14,132,664	5,195,994	78,072	5,007,755	1,071,537	-	28,927,022
Work in progress	-	-	-	-	-	-	4,647,529	4,647,529
Accumulated depreciation	-	-	(4,577,868)	(58,599)	(3,792,503)	(1,032,041)	-	(9,461,011)
Net book amount	**3,441,000**	**14,132,664**	**618,126**	**19,473**	**1,215,252**	**39,496**	**4,647,529**	**24,113,540**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

8. Property and Equipment (Continued)

On 1 July 2018, the Company acquired land and building from its Parent. The acquisition price was based on the carrying amount of the assets on the Parent company's books which approximated its fair value at that date.

The Company's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurement of the Company's land and buildings as at 31 December 2018 was performed by Bahamas Realty, a qualified independent property appraiser.

The fair values of the land and buildings were determined based on valuations using the Income Capitalisation method, Sales method and the Cost method which were used to derive an "as is" value, which was determined to be the assets' highest and best use.

Freehold land and buildings were revalued in 2017. Had the Company's land and buildings been measured on a historical cost basis, their carrying amount would have been $14,871,441 as at 31 December 2018.

Details of the Company's freehold land and buildings, as per the fair value hierarchy at 31 December 2018, is as follows:

		2018		
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Freehold land	-	-	3,441,000	3,441,000
Freehold buildings	-	-	13,548,285	13,548,285
	-	**-**	**16,989,285**	**16,989,285**

		2017		
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Freehold land	-	-	3,441,000	3,441,000
Freehold buildings	-	-	14,132,664	14,132,664
	-	**-**	**17,573,664**	**17,573,664**

The assets are required to be measured at fair value on a recurring basis. There were no transfers between the various levels during the year.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

9. Reserves for Future Policyholders' Benefits

The Company uses the Canadian Asset Liability Method ("CALM") in computing its actuarial reserves on long-term contracts. CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations.

As at 31 December 2018, the aggregate reserves for future policyholders' benefits and related insurances in-force are summarised as follows:

	Reserves		**Insurances in force**	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Ordinary life	90,990,730	82,220,505	2,356,000,000	2,325,220,000
Annuities	78,132,314	80,911,826	-	-
Home service life	35,364,680	36,527,776	566,901,000	524,213,000
Accident and health	8,812,721	7,601,401	-	-
Gross liabilities	213,300,445	207,261,508	2,922,901,000	2,849,433,000
Reinsurance assets	(5,172,056)	(6,520,948)	-	-
	208,128,389	**200,740,560**	**2,922,901,000**	**2,849,433,000**

The reserves for future policyholders' benefits are determined annually by actuarial valuation and represent an estimate of the amount required, together with future premiums and investment income, to provide for future benefits and expenses payable on insurance and annuity contracts. The reserves are calculated using assumptions for future policy lapse rates, mortality, morbidity rates, maintenance expenses and interest rates. The assumptions also include provisions for adverse deviation to recognise uncertainty in establishing the assumptions and to allow for possible deterioration in experience. The process of determining the provision necessarily involves risks that the actual results will deviate from the assumptions made.

Policy liabilities are calculated using best estimate assumptions with margins for adverse deviation.

(i) *Mortality and Morbidity*

Assumptions for Home Service life business are based on Company experience. Assumptions for other business lines are based on industry experience, as the Company does not have sufficient of its own experience. A margin is added for adverse deviation equal to 15 per 1,000 divided by the expectation of life for mortality and 8% to 10% for morbidity. If future mortality and morbidity rates were to differ by 10% from that assumed, the liability would increase by $5,672,029 (2017: $5,252,715) or decrease by $5,772,216 (2017: $5,361,916).

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

(ii) *Investment Yields*

Assets are allocated to support the policyholder liabilities. Using CALM, policy liabilities are equal to the carrying value of assets whose cash flows, combined with cash flows from future investments, are sufficient to meet future obligations with respect to policies in effect as at the measurement date. Since future reinvestment rates cannot be accurately predicted, they are subject to sensitivity tests based on various scenarios, as required under CALM. The results used are those produced under the most adverse plausible scenario.

Under CALM, the rates of return on future investments are already subject to various sensitivity tests. The base scenario dictates a convergence toward a median historical interest rate curve, whereas the Company's most adverse plausible scenario assumes a future yield curve equal to 80% of the yield curve of the Base Scenario. If future interest rates were to differ by 100 basis points from that assumed, without changing the policyholder dividend scale, the liability would increase by $18,993,066 (2017: $19,089,620) or decrease by $26,953,039 (2017: $26,552,715).

(iii) *Persistency*

Lapse rates are based on the Company's experience where credible experience is available and industry experience is used where credible Company experience is not available. A margin for adverse deviation is added by increasing or decreasing lapse rates; whichever is adverse, by 20% on Home Service business and 15% on Ordinary business. If future lapse rates were to differ by 10% from that assumed, the liability would increase by $1,262,325 (2017: $835,917) or decrease by $1,514,486 (2017: $1,142,615).

(iv) *Expenses*

Expenses are based on best estimates of Company experience. Expenses are increased 10% as a margin for adverse deviation. Expenses are assumed to increase annually at a rate of 2% (2017: 2%) initially, decreasing to 2% (2017: 2%) over 20 years. If future expenses were to differ by 10% from that assumed, the liability would increase by $4,158,443 (2017: $3,763,036) or decrease by $4,131,939 (2017: $3,733,940).

(v) *Ongoing Review*

Actuarial assumptions are continuously reviewed based on emerging Company and industry experience and revised if appropriate and material.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

(vi) *Margins for Adverse Deviation Assumptions*

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

The movements in reserves for future policyholders' benefits and other policyholders benefits (namely insurance liabilities), by line of business, are summarised below:

a. Short-term insurance contracts:

	2018	2017
	$	$
Liabilities at beginning of year	5,968,578	5,972,459
Changes in Data, Methods, and Assumptions	(110))	98
Usual change in In-Force Business and New Business	953,507	(3,979)
Liabilities at end of year	**6,921,975**	**5,968,578**

b. Long-term insurance contracts with fixed and guaranteed terms:

	2018	2017
	$	$
Liabilities at beginning of year	72,527,476	69,953,721
Changes in Data, Methods, and Assumptions	(3,001,632)	142,870
New Business	(4,152,479)	(3,868,910)
Usual change in In-Force Business	8,717,983	6,299,795
Liabilities at end of year	**74,091,348**	**72,527,476**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

c. Long-term insurance contracts without fixed and guaranteed terms:

	2018	2017
	$	$
Liabilities at beginning of year	98,231,626	91,633,880
Changes in Data, Methods, and Assumptions	(1,768,455)	(1,346,980)
New Business	7,452,909	1,876,709
Usual change in In-Force Business	(691,636)	6,068,017
Liabilities at end of year	**103,224,444**	**98,231,626**

d. Long-term insurance contracts with fixed and guaranteed terms and with Discretionary Participation Features (DPF):

	2018	2017
	$	$
Liabilities at beginning of year	24,012,886	25,752,668
Changes in Data, Methods, and Assumptions	(563,512)	(2,109,144)
New Business	(239,917)	(228,557)
Usual change in In-Force Business	681,165	597,919
Liabilities at end of year	**23,890,622**	**24,012,886**

Total for all lines of business

	2018	2017
	$	$
Liabilities at beginning of year	200,740,566	200,740,560
Changes in Data, Methods, and Assumptions	(5,333,709)	(3,313,159)
New Business	3,060,513	(2,220,757)
Usual change in In-Force Business	9,661,019	5,533,916
Liabilities at end of year	**208,128,389**	**200,740,560**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

10. Other Policyholders' Funds

Other policyholders' funds are comprised of the following:

	2018	2017
	$	$
Benefits payable to policyholders	13,643,627	13,049,610
Accrued policyholder dividends	3,553,143	3,527,099
Unapplied premiums	964,820	1,006,793
Advance premiums	865,847	488,979
	19,027,437	**18,072,481**

11. Payables and Accruals

Payables and accruals are comprised of the following:

	2018	2017
	$	$
Payables and accruals	4,685,729	4,653,739
Intercompany payables	3,953,451	7,684,247
Employee liabilities	2,849,226	2,687,084
Reinsurance payable	1,053,767	1,412,672
	12,542,173	**16,437,742**

12. Bank Overdraft Facilities

The Company has bank overdraft facilities of 250,000 (2017: $250,000). Amounts utilised under the facilities attract interest at Nassau prime of 4.25% plus 1.5%.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

13. Revaluation Reserve

Revaluation reserve is comprised of the following:

	Financial Investment Assets Revaluation $	Fixed Assets Revaluation $	Total Revaluation Reserve $
Balance as at 31 December 2016	1,708,858	4,412,706	6,121,564
Unrealised gains on AFS investments	1,412,671	-	1,412,671
Revaluation of property and equipment	-	(239,957)	(239,957)
Balance as at 31 December 2017	**3,121,529**	**4,172,749**	**7,294,278**
Unrealised loss on AFS investments	(585,222)	-	(585,222)
Realised loss on AFS investments	(1,230)	-	(1,230)
Revaluation of property and equipment	-	-	-
Balance as at 31 December 2018	**2,535,077**	**4,172,749**	**6,707,826**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

14. Share Capital

The Company's share capital is comprised as follows:

	Ordinary Shares $1 each 2018 $	Ordinary Shares $1 each 2017 $
Authorised	**2,000,000**	**2,000,000**
Issued and fully paid	**1,707,462**	**1,707,462**

The excess of the issue and purchase price of the ordinary shares over the par value less the costs incurred with the tender offer have been credited to the share premium account.

15. Net Premium Income

Net premium income is comprised of:

	2018 $	2017 $
Short-term insurance contracts	74,352,501	70,958,136
Long-term insurance contracts with fixed and guaranteed terms	24,245,185	22,842,929
Long-term insurance contracts without fixed and guaranteed terms	6,299,166	6,427,249
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	2,734,916	2,862,113
Premium revenue arising from insurance contracts issued	107,631,768	103,090,427
Premiums ceded for short-term and long-term contracts to reinsurers	(9,101,574)	(10,423,366)
	98,530,194	**92,667,061**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

16. Policyholders' Benefits

Policyholders' benefits for the year ended 31 December 2018 by insurance contracts were as follows:

	2018			2017		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Short-term insurance contracts	59,577,174	(6,687,340)	52,889,834	48,607,778	(1,869,603)	46,738,175
Long-term insurance contracts with fixed and guaranteed terms	8,529,399	(2,150,544)	6,378,855	7,104,051	(880,292)	6,223,759
Long-term insurance contracts without fixed and guaranteed terms	13,576,039	-	13,576,039	8,934,834	-	8,934,834
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	3,299,438	-	3,299,438	3,186,300	-	3,186,300
	84,982,050	**(8,837,884)**	**76,144,166**	**67,832,963**	**(2,749,895)**	**65,083,068**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

17. Operating Leases

The Company leases certain office premises under non-cancellable operating leases. Future minimum rental commitments as of 31 December 2018 are as follows:

	2018	**2017**
	$	**$**
Up to 1 year	622,191	622,191
1 year to 5 years	2,488,765	2,488,765
	3,110,956	**3,110,956**

Included in these balances are amounts for the future minimum rental commitments to the Parent company totaling $559,170 (2017: $559,170).

18. Taxation

There are no corporate, income or capital gains taxes levied in The Bahamas and the Company, therefore, pays no taxes on its net income. However, taxes based on gross premium income, levied at 3%, for the year ended 31 December 2018 amounted to $3,229,082 (2017: $3,092,212) and is included within operating expenses in the statement of comprehensive income.

The Company is also subject to Value Added Tax ("VAT") on taxable supplies at a standard rate of 12%. The Company is eligible for input tax deductions, based on an apportionment formula using the premiums for standard rated taxable and exempt supplies. VAT incurred by the Company in excess of the input tax deductions is included in operating expenses in the statement of comprehensive income.

19. Pension Plan

The Company's pension costs, net of forfeitures in respect to the Plan for the year ended 31 December 2018, amounted to $745,535 (2017: $630,182) and are included in operating expenses in the statement of comprehensive income.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

20. Operating Expenses

Operating expenses consists of the following:

	2018	2017
	$	$
Salaries and benefits	10,480,240	11,329,307
Marketing and public relations	1,254,359	970,273
Premises and maintenance	2,544,359	2,864,314
Premium tax and statutory fees	3,507,497	3,359,227
Professional fees	1,047,964	1,176,605
Other expenses	1,286,387	783,827
Total	**20,120,806**	**20,483,553**

21. Commitments and Contingent Liabilities

Outstanding commitments to extend credit under mortgage loan agreements amounted to $4,513,191 as of 31 December 2018 (2017: $4,253,710).

The Company is a defendant in several legal actions arising in the normal course of its business affairs. Management believes that the resolution of these matters will not have a material impact on the Company's financial position.

The Company is contingently liable for $5,000 (2017: $5,000) in respect of customs bonds and customs guarantees.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

22. Related Party Balances and Transactions

Related parties of the Company are those defined in Note 3(w).

The following are related party transactions and balances not disclosed elsewhere in the financial statements:

	2018	2017
	$	$
Related party transactions with the Parent:		
Rent Expense	559,170	1,090,244
Administrative fees	-	189,505
Post-employment benefits	23,919	23,919
Related party transactions with affliates:		
Investment Management fees	279,598	256,718
Investment Management expenses	139,799	-
Related party balances with affliates:		
Brokerage cash and cash equivalent	682,691	1,401,095
Related party transactions with other related parties:		
Premiums ceded to reinsurer	3,469,675	3,767,552
Reinsurance recoveries	546,541	308,996
Administration fees	40,509	45,117
Management fees	172,509	132,000
Related party balances with other related parties:		
Receivables and other assets	373,101	645,411
Payables and accruals	406,047	638,116
Compensation of key management personnel:		
Salaries and other short-term employee benefits	2,826,145	3,470,547
Commissions	452,057	262,544
	3,278,202	**3,733,091**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

22. Related Party Balances and Transactions (Continued)

Employees' incentive plan:

The Company sponsors a plan as an on-going incentive system for its key employees. The plan holds $10,950 shares (2017: 5,600 shares) of the Parent company and these shares are awarded to the plan participants on an annual basis for services rendered in the previous year or as special awards for a promotion or upon hiring at the executive level. The Company makes cash awards as the need arises to the plan and the plan purchases the shares as needed on the open market at market value. The shares vest over a period of years, depending on the type of award granted.

Included in total loans are mortgages to the Parent, which carry interest rates of 6.5% over 15 years, in the amount of $7,591,090 (2017: $4,934,847). During the year, the Company earned interest on mortgages to the Parent of $370,768 (2017: $336,832)

23. Post-Retirement Medical Benefit

The Company introduced a post-retirement medical plan on 1 January, 1999 for employees who retire after that date. Employees at age 65 or older with 10 or more years of service to the Company are eligible for subsidised post-retirement medical, dental and vision benefits.

The Company funds the cost of the entitlements expected to be earned on an annual basis. The Company's contributions will be provided as premium payments are due, for retired participants. Retirees are assumed to pay the full retiree costs, less the Company's subsidy.

In 2013, the employer contribution subsidy for medical costs was increased from 50% of active costs to 60% of retiree costs and a 50% employer contribution subsidy was provided for dental and vision costs. The Company set the contributions to a fixed dollar amount equivalent to the 2014 subsidy and eliminated the dental and vision subsidy for future periods.

The most recent actuarial valuation was carried out by Towers Watson, the Company's independent actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

23. Post-Retirement Medical Benefit (Continued)

Amounts recognised in the consolidated statement of comprehensive income consists of:

	Other Post employment Benefits	
	2018	**2017**
	$	**$**
Components of benefit cost recognised in comprehensive income:		
Current service cost	147,162	77,248
Interest cost	79,268	51,532
Actuarial loss	-	-
Past service cost recognised	-	449,013
Net benefit cost in recognised in comprehensive income	**226,430**	**577,793**

	2018	**2017**
	$	**$**
Components of benefit cost recognised in other comprehensive income:		
Remeasurement on the defined benefit liability:		
Actuarial (gain)/loss due to experience	(129,522)	41,008
Actuarial loss due to demographic assumption changes	41,057	-
Actuarial (gain)/loss on DBO	**(88,465)**	**41,008**

	2018	**2017**
	$	**$**
Total benefit cost recognised in net income and other comprehensive income:		
Cost recognised in net income	226,430	577,793
Remeasurement effects recognised in other comprehensive income	(88,465)	41,008
Total benefit cost recognised in net income and other comprehensive income	**137,965**	**618,801**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

23. Post-Retirement Medical Benefit (Continued)

	2018 $	2017 $
Total benefit cost recognised in the statement of comprehensive income		
Cost recognised in net income	226,430	577,793
Remeasurement effects recognised in other comprehensive income	(88,465)	41,008
Total benefit cost recognised in the statement of comprehensive income	**137,965**	**618,801**

The current service cost, interest expense and past service cost for the year are included in the employee benefits expense in the statement of comprehensive income. The re-measurement of the net defined benefit liability is included in other comprehensive income.

There are no assets associated with the Company's post-retirement medical benefit plan.

Funded Status

The funded status at the end of the year, and the related amounts recognised in the statement of financial position are as follows:

	Other Post employment Benefits	
	2018 $	2017 $
Funded status, end of year		
Benefit obligation, funded plans	(1,689,922)	(1,657,632)
Unrecognised net actuarial loss	-	-
Net amount recognised, end of year	**(1,689,922)**	**(1,657,632)**

Amounts recognised in the statement of financial position of:

	2018 $	2017 $
Liability	**(1,689,922)**	**(1,657,632)**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

23. Post-Retirement Medical Benefit (continued)

Funded Status (continued)

	Other Post employment Benefits	
	2018	**2017**
	$	**$**
Experience adjustments		
DBO, end of year	(1,689,922)	(1,657,632)
Funded status	**(1,689,922)**	**(1,657,632)**

	Other Post employment Benefits	
	2018	**2017**
	$	**$**
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contribution	105,675	66,414
Plan participants' contribution	(105,675)	(66,414)
Fair value of plan assets, end of year	-	-

The weighted average assumptions used to determine the defined benefit obligation at the end of the year were as follows:

	2018	**2017**
Discount rate	4.50%	4.50%
Medical cost trend rate	N/A	N/A
Dental/Vision cost trend	0.00%	0.00%
Mortality	RP2000	RP2000

Expected employer contributions

The Company expects to contribute $105,972 (2017: $87,542) to the post-retirement benefits plan in 2018. This benefit is expected to be paid from corporate assets.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2018
(Expressed in Bahamian dollars)
(Continued)

24. Subsequent Events

On 8 February 2019, the Board of Directors declared a fourth quarter dividend of $0.47 (2017: $0.35) per share or $800,000 (2017: $600,000) to shareholders of record as of 8 February 2019 and paid 14 February 2019.