



FAMGUARD
CORPORATION LIMITED

2019 ANNUAL REPORT



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FamGuard's group of companies provides a wide range of products and services to manage risk and build wealth:

- Life Insurance
- Health Insurance
- Annuities
- Employee Benefits
- Home, Auto & Commercial Insurance
- Residential & Commercial Mortgages



Family Guardian Insurance Company
Life & Health Insurance
www.familyguardian.com



BahamaHealth
Group & Individual Insurance
www.bahamahealth.com



FG Insurance Agents & Brokers
Property & Casualty Insurance
www.fgiagentsandbrokers.com

[Click here to see our current Board of Directors](#)

Norbert F. Boissiere - Chairman

Director since 1983
Chairman
FamGuard Corporation Ltd.
New Providence, The Bahamas

Dr. M. Patricia Downes-Grant, BA, MA, MBA, DBA

Director since 2014
Executive Director, Corporate
Sagicor Financial Corporation
Barbados

Glen O. A. Ritchie, CPA

Director since 2017
President
FamGuard Corporation &
Family Guardian Insurance Company
New Providence, The Bahamas

Sandra K. Osborne, QC, LLB, FCIS

Director since 2005
Attorney-at-Law
Barbados

H. Charlotte Pyfrom

Director since 1999
Trustee
Pyfrom Enterprises Ltd.
New Providence, The Bahamas

M. Craig Roberts

Director since 1986
Consultant Counsel
Graham Thompson & Co.
New Providence, The Bahamas

A. Christine Woodman

Director since 2000
Director
Waterloo Holdings Ltd.
New Providence, The Bahamas

Bennet R. Atkinson, MBA, CPA

Director since 2005
Chartered Accountant
Ronald Atkinson & Co.
New Providence, The Bahamas

Gerald P. Strachan

Director since 2017
Retired Executive
New Providence, The Bahamas

Wendy M. Craigg, MBA

Director since 2017
Economic Advisor
Ministry of Finance
New Providence, The Bahamas

Dodridge D. Miller, FCCA, MBA, LLM

Director since 2005
President & CEO
Sagicor Financial Corporation
Barbados

The Board of Directors of the Company has the obligation to oversee the conduct of the business of the Company and its subsidiaries and to supervise senior management, which is responsible for the day-to-day conduct of the business. The Board of Directors deals with all matters that materially impact the Company including overseeing the Company's performance, risk management and governance frameworks. The Board also has responsibility for setting the strategic objectives and risk appetite for the Company, and leading the culture and behaviours of the Company's employees. The Board is also obligated to comply with the Company's rules of business conduct and ethics and confirms that it has not breached this obligation.

The Board of Directors continues to review and enhance the Company's Corporate Governance Framework in light of evolving stakeholder expectations, legislative changes and the dynamic operating environment. During the year, the Board continued to strengthen corporate governance by implementing the Securities Industry (Corporate Governance) Rules, 2019. The Board is on track with the milestones it has set for itself to complete this implementation.

The Board of Directors has delegated certain of its responsibilities to committees of the Board. The Board's Committees are generally responsible for reviewing matters specified in their Mandates and making recommendations to the Board, which retains ultimate decision-making authority. The determination as to whether Board approval needs to be sought on a particular matter is the responsibility of the Board Chairman, the President, the Chairman of the Audit Committee and the Chairman of the Corporate Governance & Conduct Review Committee.

The Board of Directors has constituted the following committees:

- Human Resource & Compensation Committee
- Audit Committee
- Corporate Governance & Conduct Review Committee
- Technology Committee
- Investment & Risk Committee

Human Resource & Compensation Committee

The Human Resource & Compensation Committee is primarily responsible for approval of and, where appropriate, for making recommendations for approval by the Board of Directors with respect to matters related to compensation and benefit programs, the appointment and compensation of key members of senior management and the appointment of officers of the Company and its subsidiaries.

The Chairman of the Human Resource & Compensation Committee is Mr. Norbert F. Boissiere and the Committee members are Ms. H. Charlotte Pyfrom and Mrs. A. Christine Woodman.

Audit Committee

The Audit Committee is responsible for the oversight of the financial reporting and internal controls of the Company, which includes the review and evaluation of the appropriate accounting principles and practices to be observed in the preparation of the accounts of the Company and its subsidiaries. The Audit Committee is responsible for the initial review of the Company's annual audited consolidated financial statements prior to consideration thereof by the Board of Directors. It approves the scope of the audit activities proposed each year to be conducted by the independent auditors. It also recommends the appointment and approves the terms of engagement of the independent auditors.

The Chairman of the Audit Committee is Mr. Bennet R. Atkinson and the Committee members are Mr. Gerald P. Strachan and Mrs. Wendy M. Craig.

Corporate Governance & Conduct Review Committee

This Committee oversees the development and the implementation of a sound Corporate Governance Architecture which complies with the laws of The Bahamas and international best practice. The purpose of the Committee is to:

- (a) Develop and recommend to the Board policies and procedures to establish and maintain best practice standards of corporate governance.
- (b) Manage the process for director succession, nomination and recommendation to shareholders for (re-) election as directors.
- (c) Establish and direct the processes for assessing the performance of the Board, its committees and individual directors.
- (d) Oversee the processes relating to communications and public policy and the Company's corporate image.
- (e) Ensure procedures and practices are established related to self-dealing, insider trades, related party transactions and customer complaints handling.

The Corporate Governance Architecture deals with

- (a) the ethical and business values that shape and guide the Company;
- (b) policies and procedures governing essential operations;
- (c) the structure, composition and internal operation of the Board;
- (d) the respective roles and responsibilities of the Board and Management; and
- (e) accountability and performance for both the Board and Management in the way they discharge their respective responsibilities.

The Chairman of the Corporate Governance & Conduct Review Committee is Ms. Sandra K. Osborne, QC and the Committee members are Mr. Norbert F. Boissiere and Mr. M. Craig Roberts.

Technology Committee

The Technology Committee is responsible for ensuring a best practice approach to aligning the investments in information technology with business goals as determined by the Board of Directors of the Company. The goal is to effectively utilize state-of-the-art technology to provide superior customer service to the Company's clients and employees.

The Chairman of the Technology Committee is Mrs. A. Christine Woodman and the Committee members are Mr. Bennet R. Atkinson, Mr. Dodridge D. Miller and Mr. Glen O. A. Ritchie.

Investment & Risk Committee

The mandate of the Investment and Risk Committee is to oversee the investment of excess funds and clients' investment funds to ensure that such investment provides both short- and long-term returns that meet the reasonable investment expectations of policyholders, clients, pensioners and other investors while maintaining portfolio risks within acceptable limits. The Committee also has risk management oversight for the Group.

The Chairman of the Investment and Risk Committee is Mrs. Wendy M. Craig and the Committee members are Mrs. A. Christine Woodman, Mr. Gerald P. Strachan and Dr. M. Patricia Downes-Grant.

Any responsibility that is not delegated to a committee of the Board of Directors or senior management remains with the full Board of Directors.

Board Appointments & Training

The Board's induction process is set out in the Corporate Governance Manual, which is reviewed annually by the Corporate Governance and Conduct Review Committee. The Board of Directors is appointed annually by the Company's shareholders and the Board Chairman and the Chairman of each Board Committee are selected by the Board of Directors.

Directors receive training at least once per year to ensure that they remain informed around key matters that impact their ability to perform their duties as directors. Additionally, to ensure that the Board has the skills and expertise needed to ensure its effectiveness in addressing business and governance issues, the Board uses a Skills Matrix, which sets out the desired skills and experience the Board needs to carry out its duties and notes which directors have the identified skills and experience. The Skills Matrix is reviewed on an annual basis.

Meetings of Board of Directors and Board Committees and their Conduct

The Board of Directors and its Committees aim to meet formally at least 4 times per year. The table below indicates Director attendance at meetings during the year 2019.

Director	Number of Board Meeting Invitations	Number of Board Meetings Attended	Number of Committee Meeting Invitations	Number of Committee Meetings Attended
Norbert F. Boissiere	4	3	7	5
Glen O. A. Ritchie	4	4	4	4
H. Charlotte Pyfrom	4	2	4	2
A. Christine Woodman	4	3	12	12
Gerald P. Strachan	4	2	12	10
Dodridge D. Miller	4	1	4	1
M. Patricia Downes-Grant	4	2	4	2
Sandra K. Osborne, QC	4	3	3	3
M. Craig Roberts	4	3	3	2
Bennet R. Atkinson	4	4	12	11
Wendy M. Craigg	4	4	12	12

The Board and Board Committee Chairmen establish meeting agendas to ensure adequate coverage of financial, strategic and other key risk areas throughout the year. The Board confirms that it, together with its various Committees have effectively carried out the Board and Board Committee Mandates during the year 2019 and have effectively given oversight to the Company's management of key risks.

The Audit Committee is comprised of three Directors whose general scope and purpose is to assist the Board in fulfilling its oversight responsibilities in the monitoring of the following:

- (1) The integrity of the Company's financial statements;
- (2) The Company's compliance with legal and regulatory requirements;
- (3) The independent Auditor's qualifications and independence;
- (4) The adequacy of the Company's internal audit functions and the external Auditor's scope, and
- (5) The adequacy and effectiveness of risk management systems and the Company's internal controls.

YEAR IN REVIEW

Financial Reporting

During the year, the Audit Committee reviewed any significant reporting issues to gain an understanding of their impact on the financial statements. Such issues include: changes in the selection or application of accounting principles; the effect of regulatory and legal requirements; reviewing reports and analyses prepared by management and the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements; reviewing the effect of new IFRS standards and amendments to existing standards; reviewing scope limitations, if any, of the independent auditor's activities; and, discussing with management and the independent auditor the quarterly financial statements and the annual audit report.

Internal Audit and Internal Controls

During the year, the Committee reviewed with management and the internal auditors: the internal audit charter, plans, activities, staffing, and organizational structure of the internal audit function. The Committee held meetings with the internal auditors to review quarterly internal audit reports on significant findings and recommendations together with management's responses. The Committee is satisfied that the Company's internal controls and the internal audit department are functioning adequately in order to provide effective risk management.

External Audit

The Committee reviewed the performance and independence of the external auditors and recommended to the Board that PricewaterhouseCoopers be reappointed as the Company's auditors. The Committee reviewed all communications of the external auditors and met where necessary to discuss the scope and results of the audit. The Committee confirmed that appropriate practices are being followed to ensure the independence of the external auditors.

Compliance

The Committee reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any instances of non-compliance. The Committee reviewed the findings of any examinations by regulatory agencies and

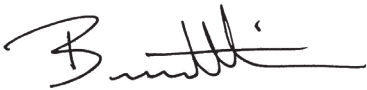
the reports from management and legal counsel regarding compliance matters. The Committee is satisfied that the compliance systems are functioning efficiently and effectively.

Reporting Responsibilities

The Committee provided quarterly reports to the Board of Directors about committee activities and any issues arising. The committee approved the quarterly and annual financial statements for presentation to the Board and for the Board's ultimate approval for issuance to the shareholders and regulators. The Committee reviewed and approved the annual audited financial statements with the external auditors prior to publication. The Committee also reviewed with the Board and the external auditors the going-concern assumptions and is satisfied that the Company meets those assumptions as a going concern. The Committee is responsible for providing an open avenue of communication between the internal audit, the external auditors and the Board of Directors.

The Committee together with the Board of Directors and management acknowledge responsibility for compliance with the rules of the Securities Commission of The Bahamas. The Committee is satisfied that the Company is in compliance with those rules.

The Audit Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended 31 December, 2019.



Bennet R. Atkinson
Chairman, Audit Committee



Dear Shareholders:

On behalf of my fellow directors, I am pleased to present the Company's annual report and audited consolidated financial statements for the year ended 31 December, 2019.

The final months of the year produced a historic challenge for the country with the severe damage inflicted by Hurricane Dorian on two of our most populated islands in September. The impact on residents and businesses in Abaco and Grand Bahama was far-reaching, and rebuilding the affected communities and their economies will be a long journey. We extend our heartfelt thoughts and prayers to those who lost loved ones, their homes, and their employment, and we remain committed to assisting in the restoration efforts.

Despite the hurricane's effect on our operations in Marsh Harbour and Freeport in the fourth quarter, the Group achieved notable progress in significant areas, reflecting the dedicated focus of our sales force and administrative staff and the loyalty of our policyholders.

At 31 December, 2019, FamGuard recorded net income of \$8.0 million duplicating its 2018 performance when the Company posted the highest earnings in its history. Profit attributable to ordinary shareholders of \$7.1 million exceeded prior year by \$769 thousand. Earnings per ordinary share increased to \$0.71 compared to \$0.64 in 2018. Shareholders' equity attributable to the owners of the parent totaled \$87.3 million in 2019. Total assets stood at \$342.4 million at year-end.

Gross premium income continued its positive trajectory increasing by \$3.1 million to \$110.8 million. This trend has resulted in a growth in premium income of \$9.7 million over the past four years (2016-2019), affirming the public's trust in our products and confidence in our financial strength.

It is this strength that our policyholders rely on to protect their families' financial security and mitigate risk. During 2019, policyholder benefits – covering death claims, hospitalization, sickness and accident and major medical, and policy maturities – totaled \$85 million.

Notwithstanding the limited investment opportunities in 2019, the Group's strategic investment decisions and positioning of its portfolio continued to produce favorable results. Investment and other income from continuing operations grew 8.3% to \$16.1 million, compared to \$14.9 million recorded in 2018.

Our insurance subsidiary, Family Guardian Insurance Company, continues to maintain capital solvency measures well in excess of local and international minimum requirements. In 2019, the internationally recognized insurance rating agency AM Best reaffirmed the company's A-Excellent rating for financial strength and stability.

A key performance indicator is the confidence expressed by investors, and I am pleased to report that FamGuard's share price increased more than 20% in 2019, moving from the \$6.30 recorded by the Bahamas International Securities Exchange (BISX) in 2018 to \$7.60 (BISX) at year-end 2019. Additionally, the Board approved a 6.7% increase in dividends payable to ordinary shareholders, representing dividends of \$0.32 per ordinary share compared to \$0.30 in 2018.

The decision was made in 2019 to sell the portfolios of FamGuard's wealth management subsidiaries, FG Financial Limited and FG Capital Markets Limited, and the investment fund business of FG Financial Fund Limited SAC with a view to focusing exclusively on the further growth of the Group's core insurance business. The Board approved the portfolios' sale to LENO Corporate Services Limited, a Bahamian investment management company, with the transaction concluding on 1 June.

The initiatives undertaken in 2019 reinforce our commitment to respond strategically to market dynamics and the economic environment.

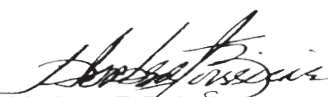
At the writing of this report, our country and the entire world face an unprecedented public health and economic challenge with the COVID-19 pandemic. The Bahamas Government's early measures to control the spread of the coronavirus will hopefully limit the number of infections. The FamGuard Group has implemented the authorized procedures to ensure employee and client safety and has executed internal risk management strategies to safeguard business continuity and service to clients during this trying period.

We face the new year mindful of the challenges ahead but firm in our resolve to meet our performance objectives and grow value for our stakeholders.

On behalf of the Board of Directors, I extend sincere appreciation to our management, sales, and administrative teams for their valued contributions during 2019 and for the special efforts exerted in the final quarter to mitigate the impact of Hurricane Dorian on our Northern Bahamas operations.

I also take this opportunity to thank Sagicor Financial Corporation (Barbados), owners of 20% of the Company's shares, for partnering with us to provide financial and material assistance to communities impacted by the storm.

As always, we express our appreciation to our shareholders and policyholders for their continued loyalty and confidence in the Group.



Norbert F. Boissiere
Chairman



Dear Shareholders:

I am pleased to report that the Company's strong financial results as at 31 December, 2019 affirm that the efforts of our sales team and the strategic initiatives undertaken by management were effective despite the unprecedented impact of Hurricane Dorian in the last quarter of the year.

Our coordinated response to the hurricane's effect on our operations in Abaco and Grand Bahama, together with our focused commitment to our 2019 goals, resulted in commendable performance in key areas:

- The Group posted net income of \$8.0 million;
- Gross premiums increased by 3% to \$110.8 million;
- Net income attributable to ordinary shareholders increased by 12.1% to \$7.1 million;
- Earnings per ordinary share increased by 10.9% to \$0.71;
- The Company's balance sheet remains strong with total assets of \$342.4 million of which investment assets represent 76.3%;
- The Group continued to fulfill its commitment to policyholders, incurring in excess of \$84.8 million in benefits paid;
- For the seventh consecutive year, AM Best reaffirmed Family Guardian's A-Excellent rating regarding its strength and stability

The 2019 results were positively impacted by the strong performance of our investment portfolio reflecting an increase in unrealized gains on investment assets and the yields on long-term fixed-rate investment assets in the portfolio.

The financial results also highlight the benefits of the Company's strategic training programs and investment in new technology platforms aimed at enhancing client service and improving operating efficiencies.

On 1 June, 2019, we sold the portfolios of the Group's wealth management subsidiaries, FG Financial Limited and FG Capital Markets Limited and the investment fund business of FG Financial Fund Limited SAC to LENO Corporate Services Limited, a respected Bahamian entity that has been providing financial and investment management services both locally and internationally since 2010. This strategic decision will benefit FamGuard going forward and provide increased opportunity to focus on the further growth of the Group's core business of life, health, and general insurance.

Through our new Leadership Enhancement and Development Program (LEAD) launched in January 2019, we continue to build an empowering culture focused on management development. Select members of our sales and administrative divisions are participating in leadership skills training, coaching and online studies to help direct their career paths and reinforce the Group's succession planning objectives.

As ever, we are committed to maintaining a sound enterprise risk management framework which includes business continuity plans throughout the Group. These strategies were effectively implemented following Hurricane Dorian's direct hit to Abaco and Grand Bahama. We were immediate in our response to secure the safety and wellbeing of our staff and agents and the relocation of sales and support functions to maintain policyholder services.

I am pleased to report that our Freeport offices are fully functional and our Marsh Harbour operations are being effectively managed from Nassau with regular visits to Abaco by our sales agents. In this regard, I extend sincere appreciation to the management, staff and agents of our Northern Bahamas branches whose resilience and dedication enabled us to provide continued support to clients during an extremely difficult period.

As we move into our 55th anniversary year, cognizant of both the challenges and opportunities ahead, we remain focused on our vision, committed to our goals, and mindful of our role in community building. We will most certainly be challenged on many levels with the impact of COVID-19, however, all divisions within the Group are dedicated to ensuring that our clients' needs are being met and we have been successful in executing our business continuity plans thereby allowing over 90% of our staff to work remotely.

I am grateful to our loyal clients, our directors, management, staff and agents, and our valued shareholders for their continued support and confidence during 2019.



Glen O. A. Ritchie
President

[Click here to see our current Executive Team](#)

President

Glen O. A. Ritchie, CPA

Senior Vice President, Administration
(Human Resources, Public Relations & Marketing)

Kerry Higgs, Ph.D.

Vice President, Systems Development & Architecture

Michael Hanna, ACS

Vice President, Technology

Jayson Clarke, MSc.

Vice President, Finance & Investments

Ramon Curtis, BSc., CPA

Vice President, Legal, Audit, Risk & Compliance
Corporate Secretary

Bryinda Russell, MSc., PGDL, MICA, FLMI

Vice President, Human Resources

Siobhan Lloyd, MBA

Vice President, Home Service Sales

Ramona Neely

Vice President, Financial Services

Michael Adderley, B.Acc.

Assistant Vice President, Projects and
Business Support, Operations

Marion Chestnut, ACS, AIAA

Assistant Vice President, Information Technology

Glen Pratt

Assistant Vice President, BahamaHealth

Alana Major, MBA, MHP, HIA, HCSA, FLMI

Financial Controller

Sandra Payne, MSc., CPA

Assistant Vice President, Operations &
Customer Service

Renee Davis, CPA

“As we move into our 55th anniversary year, cognizant of both the challenges and opportunities ahead, we remain focused on our vision, committed to our goals, and mindful of our role in community building.”

*Glen O. A. Ritchie, CPA
President*

For the year ended 31 December, 2019
This Management Discussion and Analysis is dated 30 April, 2020

OVERVIEW

FamGuard Corporation Limited (the “Company”) is incorporated under the laws of the Commonwealth of The Bahamas and serves as an investment holding company with five wholly- owned subsidiaries Family Guardian Insurance Company Limited (FG), BahamaHealth Insurance Brokers Limited, FG Insurance Agents & Brokers Limited, FG Financial Limited and FG Capital Markets Limited (together, “the Group”). FG is the principal operating unit and is licensed as an insurance company under the Insurance Companies Act, 2009. FG sells life and health insurance products in The Bahamas.

Up to 31 May 2019, FG Financial Fund Limited SAC (the “Fund”) was also a subsidiary of the Group and was the umbrella Fund for its four Sub-Funds FG Financial Preferred Income Fund, FG Financial Diversified Fund, FG Financial Growth Fund, and FG Financial Global USD Bond Fund. Each Sub-Fund had its own investment strategy and was segregated from the other Sub-Funds within the umbrella Fund.

Effective 1 June 2019, the Group sold the investment fund business of the Fund and its four sub-funds, the securities business of FG Capital Markets and the pension services business of FG Financial. The disposal was treated as a discontinued operation. Refer to Note 31 for details.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements, on which the information presented in this report is based, incorporate the financial statements of the Company, entities controlled by the Company and its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

In the current year, the Group has applied IFRS 16 *Leases* (IFRS 16), that is effective for annual periods that begin on or after 1 January 2019. The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for 2018 reporting period, as permitted under the specific transition provisions in the standard.

With the exception of IFRS 16, standards, amendments and interpretations to published standards, that became effective for the Group’s financial year, beginning on 1 January 2019, were not relevant or not significant to the Group’s operations and accordingly did not have a material impact on the Group’s accounting policies or consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements under 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

The Group evaluates such estimates on an ongoing basis, based upon historical results and experience, 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.

Due to the inherent uncertainty of the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated financial statements.

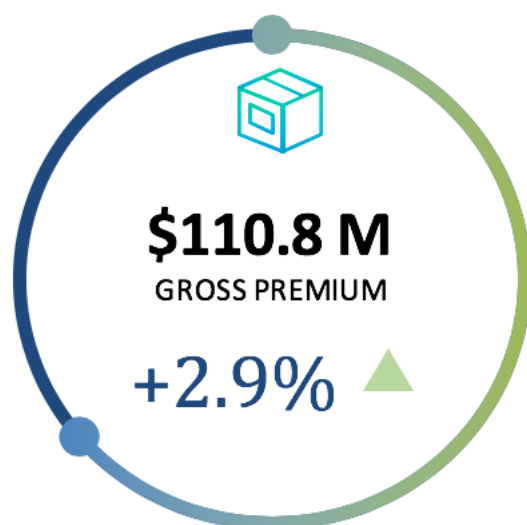
RISK MANAGEMENT

The Group's risk management structure promotes making sound business decisions that balance risks and reward for the Group and its stakeholders. The objectives of the Group's risk management framework are to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Group accepts certain levels of risk in order to generate returns, and it manages the levels of risk assumed through enterprise-wide risk management policies and procedures.

The Group's risk profile and risk appetite are reviewed and approved on an annual basis by the Board of Directors. The risk appetite is defined as the amount and type of risk that an organization is prepared to pursue, retain or take. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence. Individual risks are assessed for their contribution to aggregate exposures by nature of risk or by correlation with other risks, before acceptance.

The management of risks within the Group is summarized in note 5 of the consolidated financial statements.

SUMMARY OF FINANCIAL PERFORMANCE



TOTAL ASSETS

\$342.4 M

AM BEST RATING

A-EXCELLENT

NET INCOME

\$8.04 M

RETURN ON COMMON SHAREHOLDERS' EQUITY

8.90%

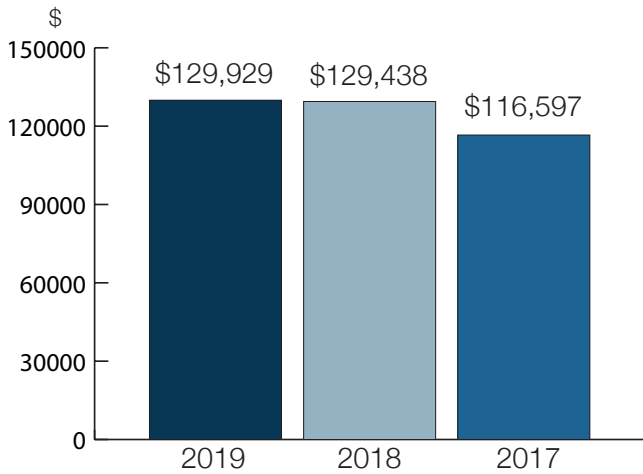
For the year ended 31 December 2019 FamGuard Corporation recorded profits of \$8.04 million maintaining its superior financial performance that was achieved in the prior year of \$8.05 million. Despite another challenging year in the medical line of business and the impacts of Hurricane Dorian in the last quarter of 2019, the Group was able to produce strong results largely due to the hard work and commitment of our sales agents and support staff, and the leadership of our management team. Net income attributable to common shareholders stood at \$7.1m and represented \$0.71 per ordinary share, a 10.9% increase over the \$0.64 per share recorded in the prior year. The overall performance of the Company during the year is highlighted by the sale of the wealth management portfolio of FG Capital Markets, FG Financial Limited, and FG Financial Fund SAC (the "Fund") which closed with a gain of \$1.95 million to the Group. The financial results of FamGuard reflect the deconsolidation of the Fund as a result of the sale. The financial performance of these entities is recorded in net income from discontinued operations in the consolidated statement of comprehensive income.

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FINANCIAL PERFORMANCE	2019	2018	2017
	\$	\$	\$
GROSS PREMIUMS	110,770	107,632	103,090
NET PREMIUMS	100,427	98,530	92,667
ANNUITY & OTHER DEPOSITS	13,365	16,006	7,099
INVESTMENT & OTHER INCOME	16,137	14,902	16,831
TOTAL REVENUES	129,929	129,438	116,597
TOTAL BENEFITS	84,814	83,532	72,511
COMMISSIONS	13,790	15,099	11,783
ADMINISTRATIVE EXPENSES	26,272	23,991	25,014
TOTAL BENEFITS & EXPENSES	124,877	122,622	109,308
NET INCOME FROM CONTINUING OPERATIONS	5,053	6,816	939
NET INCOME FROM DISCONTINUED OPERATIONS	2,992	1,233	---
TOTAL NET INCOME	8,044	8,050	7,110
NET INCOME ATTRIBUTABLE TO:			
ORDINARY SHAREHOLDERS	7,133	6,364	5,454
PREFERRED SHAREHOLDERS	288	463	600
NON-CONTROLLING INTERESTS	624	1,222	1,056
TOTAL NET INCOME	8,045	8,050	7,110

The Group recorded revenues totaling \$129.9 million from continuing operations for the year, exceeding the comparable prior period by \$491 thousand. Gross premiums increased by 2.9% representing a \$3.1 million positive variance. Despite the impact of Hurricane Dorian in the fourth quarter, the insurance company's traditional industrial life division, known as Home Service, ended the year with gross premiums totaling \$22.3 million compared to \$22.2 million for the comparable prior period. Significant efforts were made by our sales team particularly in Grand Bahama and Abaco who despite their personal experiences as a result of the storm, worked vigorously to ensure the well-being of policyholders and to ensure that policies remained in-force. The performance of this division was also supported by the positive impact of the new policy administration system which contributed to the overall operational efficiency and retention of our existing book of business.

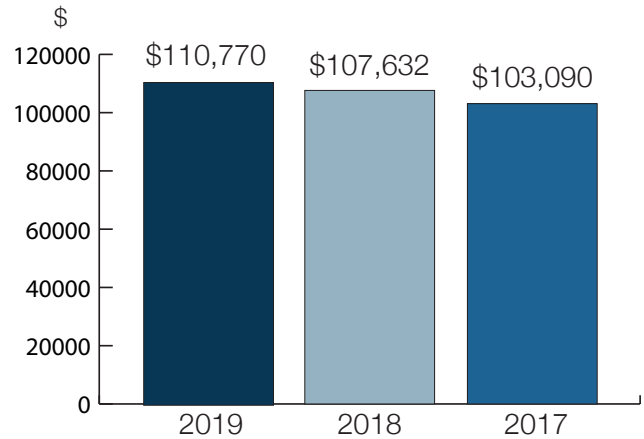
TOTAL REVENUE

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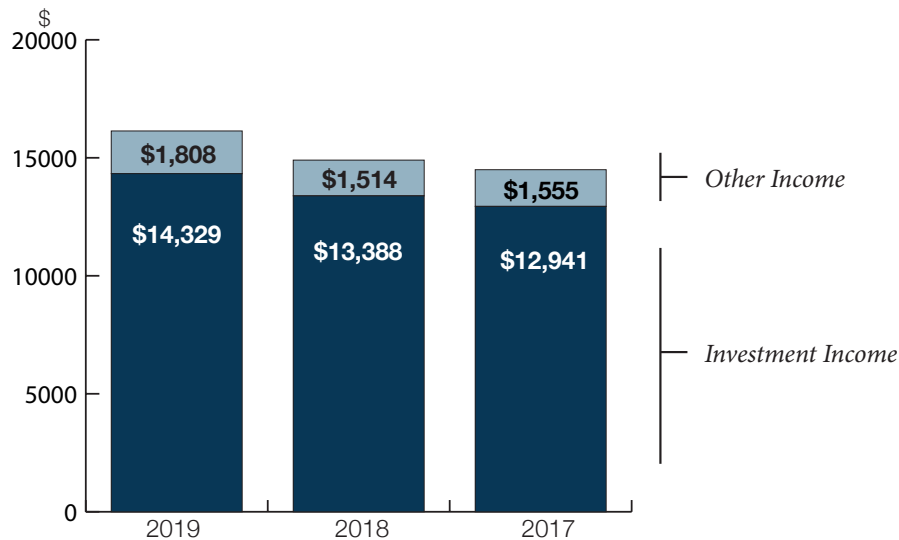
GROSS PREMIUM

BSD ,000



INVESTMENT & OTHER INCOME

BSD ,000



The Financial Services division contributed \$18.4 million to gross premium income for the period, which exceeded the prior year by \$654 thousand. The division boasts 12 Million Dollar Round Table qualifiers, with one attaining the distinguished honor of “Court of the Table”, the only one in the Bahamas for 2019. The division boasts 12 Million Dollar Round Table qualifiers, with one agent attaining the distinguished honor of “Court of the Table”, the only one in the Bahamas for 2019. The increase in premium income combined with the improvements in persistency had a positive impact on the contributions of profits from this division. The Group Health division contributed \$70 million to gross premiums for the year which exceeded the prior year by 3.5%. Premiums ceded to reinsurers increased by \$1.2 million and totaled \$10.3 million for the year. The increase in premiums ceded is primarily due to an increase in reinsurance premium rates on group and individual medical products over the prior period.

The Group continued to experience a strong demand by policyholders for annuity and other deposits which provide the benefit of life protection and competitive interest rates. Sundry deposits on Select Life plans continued their momentum from the previous year and totaled \$6.6 million for the period, while annuity deposits totaled \$6.8 million.

The Group's investment assets continued to produce favorable yields during the reporting period, despite limited investment opportunities within the market. Investment income from continuing operations totaled \$14.3 million and yielded a return on investment of 5.72% on the overall portfolio. The portfolio benefitted from the placement of liquid short-term assets into long-term investment assets which yielded fixed rates; this is consistent with our investment strategy for the backing of our insurance policy liabilities. The positive returns on the Group's mutual fund holdings as well as realized gains on the sale of equities contributed to the overall investment returns.

Besides its core business of life and health insurance, the Group earns commissions on property and casualty insurance business sold for a local property and casualty insurer through its subsidiary FG Insurance Agents & Brokerage Limited. Revenues from this line of business along with other ancillary revenues are included in other income which totaled \$1.8 million at the end of 2019, a positive variance of 19.4% over 2018.

Net policyholder benefits across all three divisions of the insurance company totaled \$76.5 million, compared to \$76.1 million in the prior year. Life and annuity benefits net of reinsurance totaled \$31.7 million compared to \$30.5 million in the prior year. Gross death claims totaled \$10.1 million compared to \$9.4 million in 2018. Health benefits increased over 2018 attributed to the high incidence of medical claims incurred from our Group division.

Increase in reserves for future policyholder benefits comprise of obligations to holders of long-term and short term insurance policies, which are estimated using prudent actuarial and accounting principles. Reserves on insurance contract liabilities that relate principally to the Group's long-term business increased by \$6.1 million, primarily due to increases in annuity and other deposits, normal movement in in-force policies and changes to actuarial estimates. Reserves on insurance contract liabilities associated with the Group's short-term business increased by \$2.2 million, primarily due to medical claims reserves, representing an estimate of pending claims incurred but not reported (IBNR).

Operating expenses increased over the prior year due to a number of strategic initiatives aimed at increasing revenue growth and reducing future operating cost through operating efficiencies. The key initiatives include technology advancements, where the Group continues to focus on improving its operating and policy administration systems, and risk management geared toward business continuity. Total expenses incurred for the year remained in line with planned expenses.

Comprehensive income attributable to shareholders includes the reported profit for the year, together with other items of income and expense that are not permitted by accounting standards to form part of profit in the Consolidated Statement of Income. These include property revaluation, gains and losses on available for sale investment assets, and actuarial reserve movements for post-employment benefits. The increase in

comprehensive income compared to 2018 was principally due to an increase in equity prices which resulted in an increase in the market value of these investment assets.

BSD ,000			
OTHER COMPREHENSIVE INCOME	DEC-2019	DEC-2018	DEC-2017
	\$	\$	\$
NET INCOME	8,045	8,050	7,110
NET CHANGE IN FAIR VALUE ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	688	(585)	1,413
REALIZED GAIN CLASSIFIED TO PROFIT OR LOSS	(223)	(1)	---
REMEASUREMENT OF DEFINED BENEFIT OBLIGATION	(4)	88	(41)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	461	(498)	1,372
TOTAL OTHER COMPREHENSIVE INCOME	8,506	7,552	8,482

Total equity attributable to owners of the parent totaled \$87.3 million. The Group continued its consistent pattern of returning profits to shareholders through the distribution of dividends. During the year, the Board of Directors approved dividends totaling \$3.2 million to common shareholders. This represented dividends of \$0.32 per ordinary share compared to \$0.30 in 2018. Total dividends paid to preferred shareholders totaled \$288 thousand in 2019.

BSD			
SHAREHOLDER RETURNS	DEC-2019	DEC-2018	DEC-2017
	\$	\$	\$
MARKET VALUE PER SHARE	7.60	6.30	6.00
EARNINGS PER ORDINARY SHARE	0.71	0.64	0.55
DIVIDENDS PER ORDINARY SHARE	0.32	0.30	0.24
BOOK VALUE PER COMMON SHARE	8.23	7.79	7.51
RETURN ON COMMON SHAREHOLDERS' EQUITY	8.9%	8.3%	7.6%

On 8 February 2019, the Board of Directors authorized a single coordinated plan for management to sell the securities business of FG Capital Markets; the investment fund business of FG Financial Fund Limited SAC and the pension services business of FG Financial which collectively, represented a separate major line of business of the Group. On 1 April 2019, FG Financial, FG Financial Fund SAC and FG Capital Markets entered into a Portfolio Acquisition Agreement with a third party to sell the portfolios of business for a total consideration of \$1.95 million. The transaction was completed on 1 June 2019.

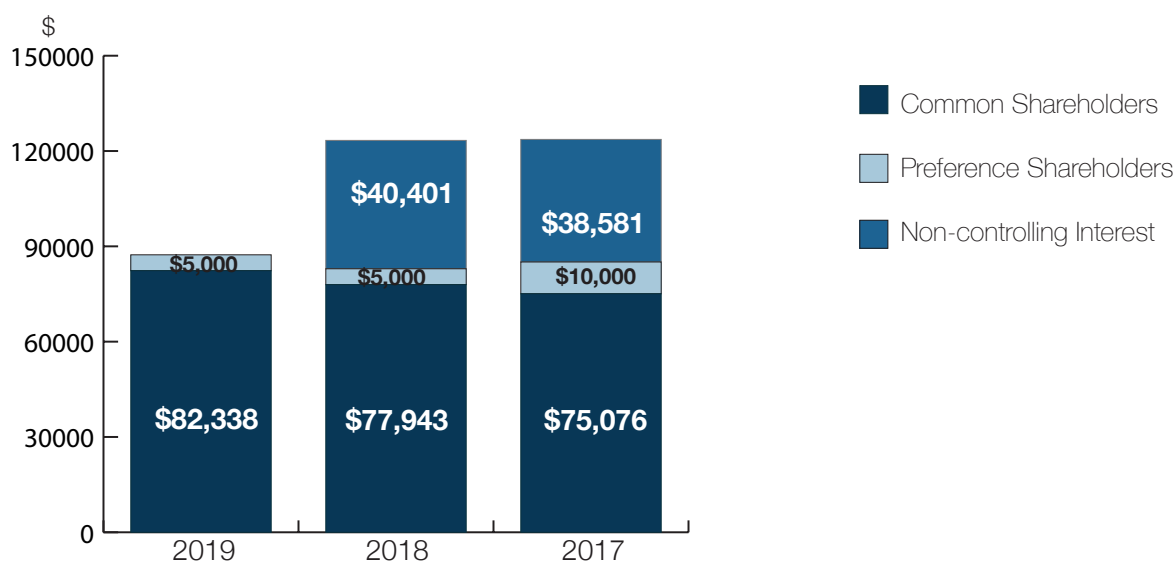
In preparing the 31 December 2019 consolidated financial statements of the Group, management determined that the aforementioned transaction met the definition of a Discontinued Operation and as such applied the Presentation requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5). The consolidated financial performance of the Discontinued Operation for the 5 months ended 31 May 2019 and the year ended 31 December 2018 is presented below:

BSD ,000		
DISCONTINUED OPERATIONS	MAY-2019	DEC-2018
	\$	\$
REVENUE	1,111	2,440
OTHER GAINS/LOSSES	588	---
EXPENSES	(657)	(1,207)
GAIN ON SALE OF THE SUBSIDIARY	1,950	---
NET INCOME FROM DISCONTINUED OPERATIONS	2,992	1,233

The sale was effected in order to generate cash flow for the expansion of the Group's core insurance business. The transaction was completed on 1 June, 2019, on which date control of the Fund passed to the acquirer. As a result of this, the Group lost control of the mutual funds and deconsolidated effective 1 June 2019 the financial information of the mutual funds. The residual holding of the mutual funds was classified as a financial asset at fair value through profit or loss and is disclosed in Note 6.

SHAREHOLDERS' EQUITY

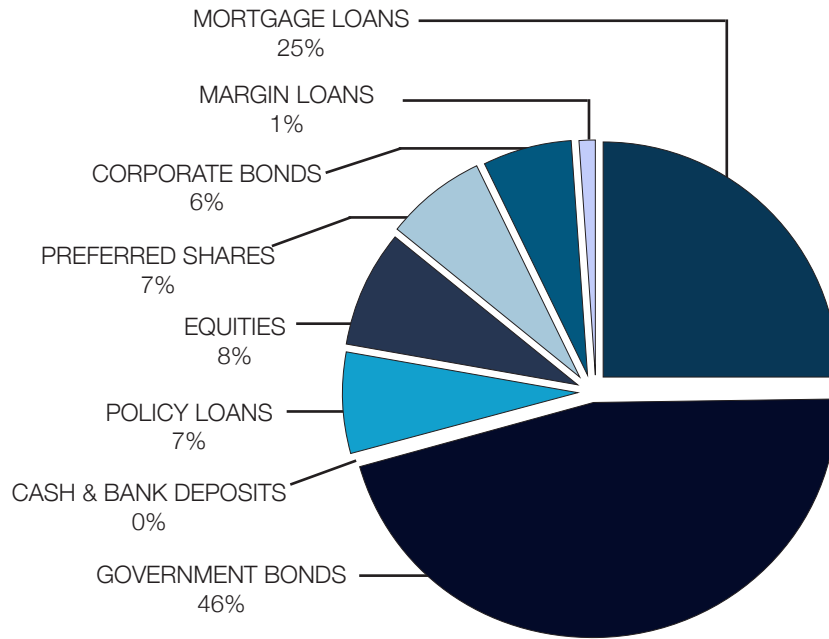
BSD ,000



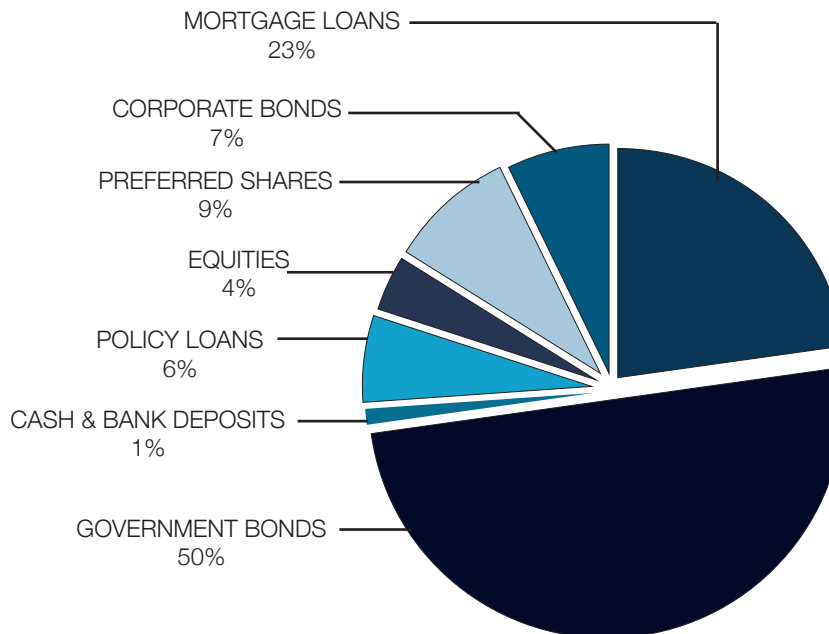
BSD ,000			
FINANCIAL POSITION	DEC-2019	DEC-2018	DEC-2017
	\$	\$	\$
INVESTMENT ASSETS	261,222	299,344	284,030
POLICY RESERVES	219,975	213,300	207,262
TOTAL ASSETS	342,406	369,375	361,975
TOTAL LIABILITIES	255,069	246,030	238,317
COMMON SHAREHOLDERS' EQUITY	82,338	77,943	75,076
PREFERENCE SHAREHOLDERS' EQUITY	5,000	5,000	10,000
NON-CONTROLLING INTEREST	---	40,401	38,581
TOTAL EQUITY	87,338	123,344	123,657

The Group's balance sheet remains strong with total assets in excess of \$342.4 million, of which investment assets comprised \$261.2 million, representing 76.3% of our total asset base. Debt securities and mortgages comprise the largest class of invested assets and represented 59% and 25% of total invested assets respectively. These securities are most significant as their medium- to long-term duration, regular interest and principal payments received, and relatively low credit risk are appropriate to back long-term liabilities. The other invested assets are appropriately spread across various asset classes.

INVESTMENT ASSETS 2019



INVESTMENT ASSETS 2018

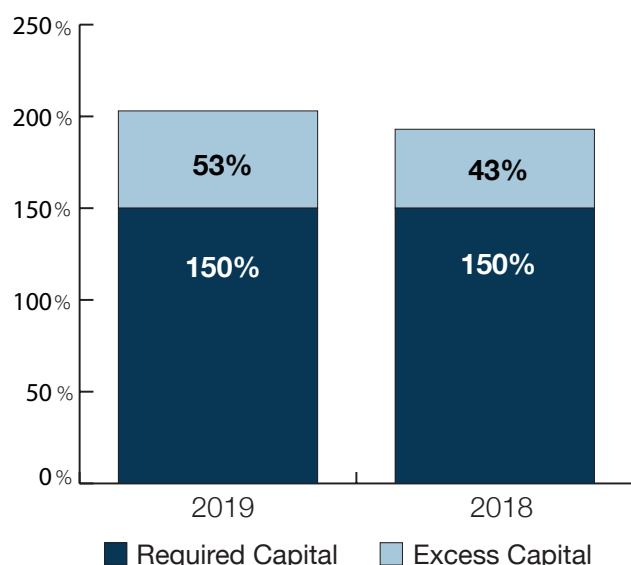


In 2019 the mortgage portfolio came under significant pressure from commercial banks as the increase in liquidity from the banks resulted in an aggressive approach to interest rates. As a result, several mortgage accounts were paid off by competing financial institutions on behalf of mortgage clients. The impact of these transactions resulted in a net reduction on the portfolio. However, some of these proceeds were used to purchase debt securities which yielded long-term fixed interest rates. The portfolio was also affected by the impact of Hurricane Dorian as several accounts were paid off by mortgage clients from proceeds of insurance claims. Despite the pressures from competing financial institutions, loans totaling \$7.5 million were committed in 2019. The decline in the portfolio was attributed mainly to the repayment of the \$7.5 million loan by the parent company.

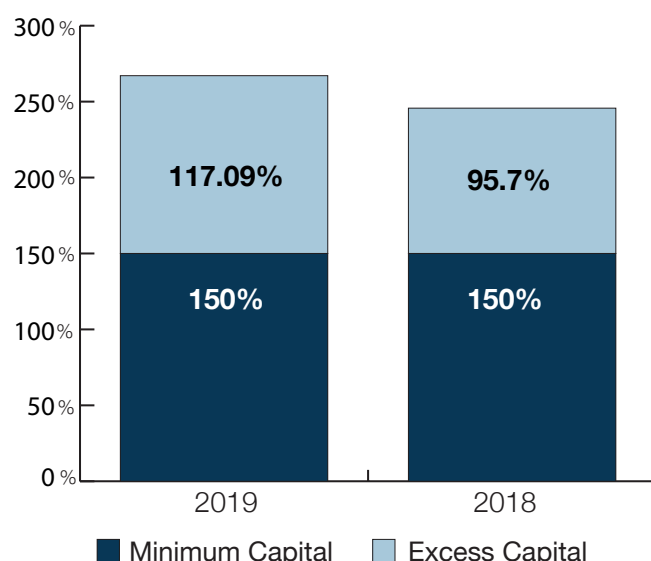
The Group saw an improvement in the non-performing ratio over the year ended December 2018. The reduction in the ratio is attributed to the aggressive follow up by the mortgage officers along with the receipt of hurricane claims received by some clients who opted to apply some of the proceeds to their outstanding balance.

The Group's capital base consists of issued shares plus retained profits. No share capital was issued during the year, nor did the Group buy back any of its shares. The Group's insurance subsidiary Family Guardian continues to maintain capital solvency measures above the local and international minimum requirements. The measures used to determine the capital adequacy of a life insurance company are the Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio and the local solvency standard prescribed by the Insurance Act of 2005. Family Guardian recorded an MCCSR ratio of 267% as of 31 December 31 2019, and 203% for the local solvency ratio. Both ratios are above the minimum requirements of 150%. The company's A.M. Best Rating of A- Excellent was reaffirmed during the year, which speaks to the financial strength of the company.

INSURANCE COMMISSION OF THE BAHAMAS SOLVENCY RATIO



MINIMUM CONTINUING CAPITAL & SURPLUS REQUIREMENTS RATIO



SUMMARY OF QUARTERLY RESULTS

The Group's quarterly results are summarized in the tables below:

2019 SUMMARY OF QUARTERLY RESULTS					
BSD ,000	Q1	Q2	Q3	Q4	TOTAL
	\$	\$	\$	\$	\$
NET PREMIUMS	24,510	25,607	24,820	25,490	100,427
TOTAL REVENUE	30,493	33,430	31,293	34,018	129,234
DISCONTINUED OPERATIONS	609	2,383	---	---	2,992
QUARTERLY NET INCOME ATTRIBUTABLE TO:					
ORDINARY SHAREHOLDERS	1,068	3,708	1,359	998	7,133
PREFERRED SHAREHOLDERS	0	144	0	144	288
NON-CONTROLLING INTERESTS	344	280	0	0	624
	1,412	4,132	1,359	1,142	8,045
QUARTERLY EARNINGS PER ORDINARY SHARE*	\$0.11	\$0.37	\$0.14	\$0.10	\$0.71

2018 SUMMARY OF QUARTERLY RESULTS					
BSD ,000	Q1	Q2	Q3	Q4	TOTAL
	\$	\$	\$	\$	\$
NET PREMIUMS	24,837	26,056	22,859	24,778	98,530
TOTAL REVENUE	30,725	33,066	33,795	34,292	131,878
QUARTERLY NET INCOME ATTRIBUTABLE TO:					
ORDINARY SHAREHOLDERS	2,108	1,740	1,787	729	6,364
PREFERRED SHAREHOLDERS	0	319	0	144	463
NON-CONTROLLING INTERESTS	134	362	204	523	1,222
	2,242	2,421	1,991	1,396	8,050
QUARTERLY EARNINGS PER ORDINARY SHARE*	\$0.21	\$0.17	\$0.18	\$0.07	\$0.64

* Quarterly earnings per ordinary share data is not shown in BSD ,000.

THE WAY FORWARD

The Bahamas, being a Small Island Developing State, remains vulnerable to changing economic conditions. In March 2020 the World Health Organization (WHO) declared the novel coronavirus, known as COVID-19 as a pandemic. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty.

According to the Central Bank in its Monthly Economic and Financial Developments February 2020 report, the domestic economy is expected to experience a negative outturn in 2020 from the fallout from Hurricane Dorian, combined with the coronavirus (COVID-19) pandemic which is adversely impacting global economic activity and travel. Tourism output is anticipated to be moderate, with any recovery heavily dependent on the progress on the international health front. The unemployment rate is projected to increase over the near-term, with any job gains concentrated within the construction sector. In price developments, domestic inflation is expected to remain subdued, benefitting from a reduction in international oil prices.

The report also noted that in terms of the fiscal sector, expenditures related to the restoration of key infrastructure and social welfare spending, combined with revenue intake disruptions related to COVID-19, are anticipated to weigh profoundly on the Government's fiscal outturn. Reinsurance receipts and donations from domestic and international sources should mitigate some of the shortfalls in revenue. However, the remaining budgetary gap will require a rise in domestic and external borrowings.

The external environment in which we operate can impact the operating and financial performance of the FamGuard group of companies. As a result, we anticipate that the effects of the economy and more specifically the COVID-19 pandemic will have a trickle-down effect on our business until some level of normalcy is restored. These are indeed unprecedented times in which we operate. However, we are confident that we possess the people, the products and leadership to achieve success during these difficult times. We therefore look to the future with optimism and confidence.

The coming year will be a year of continued transformation and adaption to change. Our focus over the next year is driven by our vision statement, "To connect people with solutions that protect their life, health, and wealth". Our priorities to achieve this vision are centered on preserving capital adequacy, maintaining a sound enterprise risk management framework, protecting franchise value, and achieving targeted performance.

Our strategic objectives are centered around the development and strengthening of our risk management policies as we continue to navigate through uncharted courses. We have developed robust stress testing scenarios which have proven that the Group is capable of withstanding some of the adverse scenarios that can be experienced from the impact of COVID-19 and other external factors. Leadership development, technology, customer service, and training also remain at the top of our strategic initiatives. We are thus confident that we are able to meet our regulatory capital measures and live up to our obligations to our shareholders, policyholders, and employees during these challenging times.



SECTION TWO: CONSOLIDATED FINANCIAL STATEMENTS

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APPOINTED ACTUARY'S REPORT

To the Board of Directors and Shareholders of FamGuard Corporation Limited

I have valued the actuarial liabilities and other policy liabilities of FamGuard Corporation Limited for its consolidated statement of financial position at 31 December 2019 and the change in the consolidated statement of comprehensive income for the year ended 31 December 2019 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 consolidated financial statements of FamGuard Corporation Limited fairly represent the results of the valuation.

A handwritten signature in black ink, appearing to read "Jean Mongrain".

Jean Mongrain
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries
Member, Caribbean Actuarial Association
February 12th, 2020



Independent auditors' report

To the Shareholders of FamGuard Corporation Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of FamGuard Corporation Limited (the Company) and its subsidiaries (together 'the Group') as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

FamGuard Corporation Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
 - the consolidated statement of comprehensive income for the year then ended;
 - the consolidated statement of changes in equity for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to the consolidated 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 consolidated 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 Group 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.

PricewaterhouseCoopers, 2 Bayside Executive Park, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, Bahamas T: +1 242 302 5300, F: +1 242 302 5350, www.pwc.com/bs, E-mail: pwcbs@bs.pwc.com



Our audit approach

Overview



- Overall group materiality: \$861,500, which represents approximately 1% of the net assets of the Group.
- In addition to the Group's primary operating company, Family Guardian Insurance Company Limited, we performed full scope audits of the Company and one other subsidiary and specific audit procedures were performed over the remaining four subsidiaries. Our audit procedures covered approximately 100% of the Group's net assets and approximately 100% of total revenue.
- Valuation of reserves for future policyholders' benefits
- Impairment allowance for mortgage loans

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Our 2019 audit was planned and executed having regard to the fact that the operations of the Group were largely unchanged from the prior year. In light of this, our overall approach in terms of scoping and key audit matters remain unchanged.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Family Guardian Insurance Company Limited, as the primary operating subsidiary of the Group, was classified as an individually financially significant component based on its overall contribution to the Group. Due to the nature of its insurance activities, this company also accounted for both of the key audit matters. For the remaining non-significant components, we performed an audit of specific account balances to ascertain whether any transactions had occurred that would have a material impact on the consolidated financial statements of the Group.



Until the current year, FG Financial Fund Limited SAC (the “Fund”) was also a subsidiary of the Group and is the umbrella Fund for its four Sub-Funds; FG Financial Preferred Income Fund, FG Financial Diversified Fund, FG Financial Growth Fund and FG Financial Global USD Bond Fund. Each Sub-Fund has its own investment strategy and is segregated from the other Sub-Funds within the umbrella Fund. Effective 31 May 2019, the Group disposed of the investment fund business of the Fund and its four sub-funds, the securities business of FG Capital Markets Limited and the pension services business of FG Financial Limited. The disposal was treated as a discontinued operation.

All audit procedures were performed by PricewaterhouseCoopers Bahamas.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall group materiality</i>	\$861,500
<i>How we determined it</i>	1% of the net assets of the Group.
<i>Rationale for the materiality benchmark applied</i>	We considered the Group’s financial stability, as represented by the net asset position, to be the most relevant benchmark in determining materiality and because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 1% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$43,075 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of reserves for future policyholders' benefits</i></p> <p><i>See notes 3(r), 4(a) and 10 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.</i></p> <p>Reserves for future policyholders' benefits are the most significant provision on the Group's consolidated statement of financial position. As at 31 December 2019, these liabilities totalled \$219,975,025.</p> <p>We focused on the significant judgements over uncertain future outcomes, notably the estimation of the total settlement value of the future policyholders' benefits. Economic assumptions being investment return, associated discount rates, policy expenses and non-economic assumptions being mortality, longevity and persistency, are the key inputs used to estimate these long-term liabilities.</p> <p>Management employs an independent external actuary to assist in determining the methodology and assumptions used in estimating the value of the future policyholders' benefits. The main approach adopted by management's external actuary is the Canadian Asset Liability Method ("CALM").</p>	<p>The work performed to address the valuation of the reserves for future policyholders' benefits included the following procedures:</p> <p>We tested, on a sample basis, the underlying policyholder data (including premium, age, gender and smoker status) to source documentation. This included agreeing that the data was transferred correctly from the administrative systems through to the valuation models and that the actuarial coding of product features was accurate based on information in the administrative systems or policy contracts.</p> <p>With the assistance of our own actuarial specialists, we applied our industry knowledge and experience and compared the methodology, models and assumptions utilized by management's actuarial experts against recognised actuarial practices.</p> <p>The non-economic assumptions were tested against the experience studies conducted by management's independent external actuary. With the assistance of our actuarial specialists, we evaluated the appropriateness of the methods employed by the independent external actuary and compared them against industry approaches and results.</p> <p>As the CALM method allocates appropriate assets to calculate the valuation discount rate, we tested a sample of representative assets to test the accuracy of the cash flows projected, verifying the application of the stated economic assumptions and the accuracy of the underlying features of the asset modelled.</p>



We reconciled the future policyholders' benefits calculated by the valuation models to the liabilities reported by the actuary. Where manual adjustments were made, we evaluated these to ensure that they were appropriate for the business and consistent with recognized actuarial practices.

The results of our procedures indicated that the methods and assumptions used by management for determining reserves for future policyholders' benefits were not unreasonable.

Impairment allowance for mortgage loans

See notes 3(h), 4(e,f) and 6(d) of the consolidated financial statements for disclosures of related accounting policies, judgement and estimates.

As at 31 December 2019, mortgage loans to customers, net of provision for impairment due to credit losses, represented \$65,983,152 or 19% of total assets of the Group. Impairment provisions on mortgage loans totalling \$2,049,215 were recognized as at the consolidated statement of financial position date.

We focused on management's impairment assessment on loans to customers as the assumptions used for estimating the amount of the provision for loan losses, including the amount and timing of future cash flows are complex and involve significant management judgement, including:

- classification of mortgage loans to customers as impaired, specifically the completeness of the population of loans to customers included in the impairment calculation.
- valuation of real estate property pledged as collateral for mortgage loans. This is the most significant repayment source for impaired mortgages; the collateral value depends on market trends as well as the circumstances of the specific property and involves judgement.

The work performed to address the valuation of the impairment allowance for mortgage loans included the following procedures:

We tested the calculation of the ageing of customers within the mortgage system by re-calculating, on a sample basis, the delinquency days based on the repayment history to determine if they were appropriately included in the provision assessment.

We tested management's listing of potentially impaired mortgages and related collateral values by comparing the collateral values recorded by management to supporting valuation appraisal reports. For a sample of valuation reports, we compared the key assumptions used by the independent appraisers to comparable actual sales data and recent sales of collateral by the Group.

For a sample of the valuation appraisal reports, we also assessed the competence and objectivity of management's appointed real estate appraisers, confirming that they were qualified and that they held no affiliation to the Group.

For a sample of mortgage loans, we recalculated the assessed impairment provision based on the principal and accrued interest on the loans and the value of the collateral held.

No exceptions requiring management to adjust their



The following are determined to be the key assumptions: provision for impairment were noted as a result of the procedures we performed.

- the valuation of the real estate property pledged as collateral;
- the estimated costs to sell the collateral;
- time to liquidate the pledged collateral.

Management engaged a number of independent appraisers to assist in determining the valuation of real estate properties pledged as collateral.

Other Information

Management is responsible for the other information. The other information comprises the FamGuard Corporation Limited 2019 Annual Report (but does not include the consolidated financial statements and our auditors' report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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



Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Prince A. Rahming.

A handwritten signature in blue ink that reads "Princewaterhouse Coopers".

Chartered Accountants
Nassau, Bahamas

28 April 2020

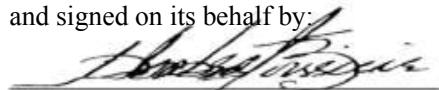
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

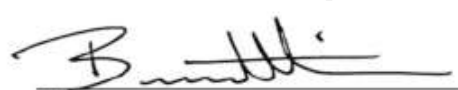
FamGuard Corporation Limited (Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Statement of Financial Position As at 31 December 2019 (Expressed in Bahamian dollars)

	Notes	2019 \$	2018 \$
ASSETS			
Financial investment assets			
Fair value through profit or loss	6	19,900,129	12,670,798
Available-for-sale	6	11,467,971	13,184,526
Held-to-maturity	6	143,441,417	185,949,173
Loans, net	6	<u>86,412,527</u>	<u>87,539,879</u>
Total financial investment assets		261,222,044	299,344,376
Cash on hand and at banks		20,295,541	9,853,144
Receivables and other assets, net	7, 24	17,509,446	17,181,089
Reinsurance assets	10	3,536,748	5,172,056
Intangible assets, net	9	-	-
Right-of-use assets	18	548,691	-
Property and equipment, net	8	<u>39,293,991</u>	<u>37,823,889</u>
Total assets		<u>342,406,461</u>	<u>369,374,554</u>
LIABILITIES			
Policy liabilities			
Reserves for future policyholders' benefits	10	219,975,025	213,300,445
Other policyholders' funds	11	<u>20,426,183</u>	<u>19,027,437</u>
		240,401,208	232,327,882
Payables and accruals	12, 24, 25	14,118,955	13,702,599
Lease liabilities	18	<u>548,691</u>	<u>-</u>
Total liabilities		<u>255,068,854</u>	<u>246,030,481</u>
EQUITY			
Preference shares	15	5,000,000	5,000,000
Ordinary shares	15	2,000,000	2,000,000
Share premium	15	10,801,080	10,801,080
Revaluation reserve	14	19,070,327	18,605,500
Retained earnings		<u>50,466,200</u>	<u>46,536,285</u>
Equity attributable to owners of the Parent		87,337,607	82,942,865
Non-controlling interests	29	<u>-</u>	<u>40,401,208</u>
Total equity		<u>87,337,607</u>	<u>123,344,073</u>
Total liabilities and equity		<u>342,406,461</u>	<u>369,374,554</u>

These consolidated financial statements were approved by the Board of Directors on 8 April 2020, and signed on its behalf by:


Director


Director

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FamGuard Corporation Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2019 (Expressed in Bahamian dollars)

	Notes	2019	2018
		\$	\$
CONTINUING OPERATIONS			
INCOME			
Gross premium income	16	110,769,655	107,631,768
Premiums ceded to reinsurers	16, 24	<u>(10,342,701)</u>	<u>(9,101,574)</u>
Net premium income	16	100,426,954	98,530,194
Annuity & other deposits		<u>13,365,355</u>	<u>16,006,069</u>
Net premium income and annuity deposits		113,792,309	114,536,263
Interest income		13,070,965	12,366,625
Dividend income		831,728	967,132
Realised gain on sale of financial assets		223,465	53,970
Unrealised gain on financial assets	6	542,780	-
Realised loss on disposal of assets		(340,018)	-
Other operating income	21,24	<u>1,808,232</u>	<u>1,514,434</u>
Total income		<u>129,929,461</u>	<u>129,438,424</u>
BENEFITS AND EXPENSES			
Benefits:			
Policyholders' benefits	17	86,300,969	84,982,051
Reinsurance recoveries	17, 24	<u>(9,796,690)</u>	<u>(8,837,885)</u>
Net policyholders' benefits		76,504,279	76,144,166
Increase in reserves for future policyholders' benefits	10	<u>8,309,888</u>	<u>7,387,829</u>
Total benefits		<u>84,814,167</u>	<u>83,531,995</u>
Expenses:			
Operating expenses	18-20, 22-24	24,021,938	21,689,274
Commissions	24	13,790,485	15,099,326
Depreciation expense	8, 18	1,608,281	1,436,788
Bad debt expense, net	6, 7	610,161	764,740
Interest on lease liabilities	18	31,708	-
Amortisation	9	<u>-</u>	<u>100,000</u>
Total expenses		<u>40,062,573</u>	<u>39,090,128</u>
Total benefits and expenses		<u>124,876,740</u>	<u>122,622,123</u>
Net income from continuing operations		<u>5,052,721</u>	<u>6,816,301</u>
DISCONTINUED OPERATIONS			
Net income from discontinued operations	31	<u>2,991,948</u>	<u>1,233,269</u>
NET INCOME		<u>8,044,669</u>	<u>8,049,570</u>

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

FamGuard Corporation Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2019 (Expressed in Bahamian dollars) (Continued)

	Notes	2019 \$	2018 \$
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Items that may be classified subsequently to net income</i>			
Net change in fair value on available-for-sale financial assets	14	688,292	(585,222)
Realised gain reclassified to net income	14	(223,465)	(1,230)
<i>Items that will not be reclassified subsequently to net income:</i>			
Remeasurement of defined benefit obligation	25	<u>(3,535)</u>	<u>88,465</u>
Total other comprehensive income/(loss)		<u>461,292</u>	<u>(497,987)</u>
Total comprehensive income		<u>8,505,961</u>	<u>7,551,583</u>
NET INCOME ATTRIBUTABLE TO:			
Ordinary shareholders		7,133,450	6,364,472
Preferred shareholders		287,500	462,757
Non-controlling interests	29	<u>623,719</u>	<u>1,222,341</u>
		<u>8,044,669</u>	<u>8,049,570</u>
Basic earnings per ordinary share	26	<u>0.71</u>	<u>0.64</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Ordinary shareholders		7,594,742	5,866,485
Preferred shareholders		287,500	462,757
Non-controlling interests		<u>623,719</u>	<u>1,222,341</u>
		<u>8,505,961</u>	<u>7,551,583</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FamGuard Corporation Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2019 (Expressed in Bahamian dollars)

	Share Capital Preference Shares (Note 15)	Ordinary Shares (Note 15)	Share Premium (Note 15)	Revaluation Reserve (Note 14)	Retained Earnings	Total Attributable to Owners of the Parent	Non- Controlling Interests (Note 29)	Total
Notes	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at 31 December 2017	10,000,000	2,000,000	10,801,080	19,191,952	43,083,348	85,076,380	38,581,058	123,657,438
Comprehensive income								
Net income	-	-	-	-	6,827,229	6,827,229	1,222,341	8,049,570
Other comprehensive income/(loss)	14, 25	-	-	(586,452)	88,465	(497,987)	-	(497,987)
Total comprehensive income/(loss)				(586,452)	6,915,694	6,329,242	1,222,341	7,551,583
Transactions with owners								
Additional non-controlling interests arising from net contributions from investors	29	-	-	-	-	-	597,809	597,809
Redemption of preference shares	15	(5,000,000)	-	-	-	(5,000,000)	-	(5,000,000)
Dividends declared and paid - Preference shares	15	-	-	-	(462,757)	(462,757)	-	(462,757)
Ordinary shares (\$0.30 per share)	28	-	-	-	(3,000,000)	(3,000,000)	-	(3,000,000)
Total transactions with owners					(3,462,757)	(3,462,757)	597,809	(7,864,948)
Balance as at 31 December 2018	5,000,000	2,000,000	10,801,080	18,605,500	46,536,285	82,942,865	40,401,208	123,344,073
Comprehensive income								
Net income	-	-	-	-	7,420,950	7,420,950	623,719	8,044,669
Other comprehensive income/(loss)	14, 25	-	-	464,827	(3,535)	461,292	-	461,292
Total comprehensive income				464,827	7,417,415	7,882,242	623,719	8,505,961
Transactions with owners								
Net equity impact of disposal of discontinued operations	31	-	-	-	-	-	(41,024,927)	(41,024,927)
Dividends declared and paid - Preference shares	15	-	-	-	(287,500)	(287,500)	-	(287,500)
Ordinary shares (\$0.32 per share)	28	-	-	-	(3,200,000)	(3,200,000)	-	(3,200,000)
Total transactions with owners					(3,487,500)	(3,487,500)	(41,024,927)	(44,512,427)
Balance as at 31 December 2019	5,000,000	2,000,000	10,801,080	19,070,327	50,466,200	87,337,607	-	87,337,607

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FamGuard Corporation Limited

Consolidated Statement of Cash Flows Year Ended 31 December 2019 (Expressed in Bahamian dollars)

	Notes	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations		5,052,721	6,816,301
Adjustments for:			
Depreciation expense	8	1,608,281	1,436,726
Amortisation of intangible asset	9	-	100,000
Unrealised gain on financial assets		(542,780)	-
Realised gain on sale of financial assets		(223,465)	(53,970)
Realised loss on disposal of assets		340,018	-
Decrease in reinsurance assets		1,635,308	1,348,892
Increase/(decrease) in loans provision	6	475,088	(27,341)
Change in reserves for future policyholders' benefits		6,674,580	6,038,936
Interest income		(13,070,965)	(12,366,624)
Dividend income		(831,728)	(967,132)
Operating income before working capital changes		1,117,058	2,325,789
(Decrease)/increase in receivables and other assets		(1,439,057)	506,594
Increase/(decrease) in payables and accruals		4,859,551	(240,725)
Increase in other policyholders' funds		1,398,745	954,956
Net cash from operating activities		5,936,297	3,546,614
CASH FLOWS FROM INVESTING ACTIVITIES:			
Pension forfeitures reinvested	6	(142,991)	(139,902)
Maturity of bank term deposits greater than three months		-	3,000,000
Purchase of corporate bonds		(500,000)	(4,000,000)
Redemption of corporate bonds		881,351	883,351
Redemption of preference shares		794,188	223,188
Purchase of government bonds & notes		(8,953,800)	(8,318,500)
Maturity of government bonds & notes		10,266,500	1,833,381
Purchase of equity securities		-	(80,360)
Proceeds from equity securities		270,000	770,511
Net loans issued		(1,133,511)	(7,502,614)
Purchase of property and equipment	8	(2,376,373)	(2,471,380)
Proceeds from disposal of property and equipment		51,771	-
Interest received		12,918,297	12,611,938
Dividends received		831,728	967,132
Net cash from/(used in) investing activities		12,907,160	(2,223,254)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FamGuard Corporation Limited

**Consolidated Statement of Cash Flows
For the Year Ended 31 December 2019
(Expressed in Bahamian dollars)
(Continued)**

	2019	2018
	\$	\$
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of principal portion of lease liability	(16,120)	-
Redemption of preference shares	-	(5,000,000)
Dividends paid on ordinary shares	(3,200,000)	(3,000,000)
Dividends paid on preference shares	(287,500)	(462,757)
Net cash used in financing activities	<u>(3,503,620)</u>	<u>(8,462,757)</u>
Net increase/(decrease) in cash and cash equivalents from continuing operations	15,339,837	(7,139,397)
Net cash and cash equivalents from discontinued operations	31 (4,897,440)	110,899
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>9,853,144</u>	<u>16,881,642</u>
End of year	<u>20,295,541</u>	<u>9,853,144</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash on hand and at banks	20,295,541	9,853,144
Short-term bank deposits	<u>-</u>	<u>-</u>
	<u>20,295,541</u>	<u>9,853,144</u>

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

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

1. General Information

FamGuard Corporation Limited (the “Company”) is incorporated under the laws of the Commonwealth of The Bahamas and serves as an investment holding company with five wholly owned subsidiaries; Family Guardian Insurance Company Limited (FG), BahamaHealth Insurance Brokers Limited, FG Insurance Agents & Brokers Limited, FG Financial Limited and FG Capital Markets Limited (together, “the Group”). FG is the principal operating unit and is licensed as an insurance company under the Insurance Companies Act, 2009. FG sells life and health insurance products in The Bahamas.

Until the current year, FG Financial Fund Limited SAC (the “Fund”) was also a subsidiary of the Group and is the umbrella Fund for its four Sub-Funds; FG Financial Preferred Income Fund, FG Financial Diversified Fund, FG Financial Growth Fund and FG Financial Global USD Bond Fund. Each Sub-Fund has its own investment strategy and is segregated from the other Sub-Funds within the umbrella Fund.

Effective 31 May 2019, the Group disposed of the Investment Fund Business of the Fund and its four sub-funds, the Securities Business of FG Capital Markets and the Pension Services Business of FG Financial Limited. The disposal was treated as a discontinued operation. Refer to Note 31 for details.

The registered office of the Company is located at the offices of E. Dawson Roberts & Co., Parliament and Shirley Streets, Nassau, The Bahamas. The ordinary shares of the Company are listed on The Bahamas International Securities Exchange (BISX).

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

New standards, amendments and interpretations adopted by the Group

With the exception of IFRS 16 *Leases* (IFRS 16), standards, amendments and interpretations to published standards, that became effective for the Group’s financial year, beginning on 1 January 2019, were not relevant or not significant to the Group’s operations and accordingly did not have a material impact on the Group’s accounting policies or consolidated financial statements.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 Group (Continued)

IFRS 16 Leases

In the current year, the Group has applied IFRS 16 that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3(v). The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonable similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 January 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases;
- Excluding initial direct cost for the measurement of the right-to-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019

(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 Group (continued)

IFRS 16 Leases (continued)

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 *Leases* (IAS 17) and IFRIC 4 *Determining whether an arrangement contains a Lease* (IFRIC 4) will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on Lessee Accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17.

Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income;
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.50%.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 Group (continued)

IFRS 16 Leases (continued)

Lease incentives, where applicable, are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases, with terms of 12 months or less, and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses in the consolidated statement of comprehensive income.

The table below reconciles the operating lease commitments at 31 December 2018 to the lease liability at 1 January 2019:

	1 January 2019
	\$
Operating lease commitments disclosed as at 31 December 2018	333,076
Discounted using the lessee's incremental borrowing rate at the date of initial application	(12,808)
Less: short term leases not recognised as a liability	(23,160)
Lease liability recognised as at 1 January 2019	297,108
of which are:	
Current lease liabilities	18,766
Non-current lease liabilities	278,342
	297,108

Measurement of right of use asset

The right of use asset at the date of initial application for leases previously classified as an operating lease under the principles of IAS 17 was measured at the amount equal to the lease liability, adjusted as applicable by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 Group (continued)

IFRS 16 Leases (continued)

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7;
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Adjustments recognised in the consolidated financial position on 1 January 2019

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

- Right of use asset- increase by \$297,108
- Contract liabilities- increased by \$297,108

The net impact on retained earnings on 1 January 2019 was \$Nil.

The adoption of IFRS 16 did not have an impact on net cash flows.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 issued but not yet effective

With the exception of IFRS 9 *Financial Instruments* (IFRS 9) 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 Group's accounting policies or financial statements in the financial period of initial application.

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required.

The IASB issued amendments to IFRS 4 that provided two approaches for insurers applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2023 for those companies whose activities are predominantly connected with insurance. In line with the deferral of the effective date of IFRS 17 to 1 January 2023, the IASB has agreed to extend the IFRS 9 exemption for insurers to the same date. The Group has taken advantage of this temporary exemption and will apply IFRS 9 for the period beginning 1 January 2023.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 issued but not yet effective (continued)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* (IFRS 9), became effective for the Group's financial year beginning on 1 January 2018 but was deferred under options provided by the IASB and accordingly are not reflected in the Group's accounting policies or consolidated financial statements.

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 Group'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. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Group has not yet assessed the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2023 as described above.

3. Significant Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements of the Group 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 consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately in Note 4 to the consolidated financial statements.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

(b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Group, entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(b) Principles of consolidation (continued)

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Net income and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in the subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary and any non-controlling interest and other components of equity. A gain or loss is recognised in the consolidated statement of comprehensive income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to net income or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

A listing of the Group's subsidiaries is set out in Note 30.

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(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the board of directors who is considered as the chief operating decision maker. The board of directors assesses the financial performance and position of the Group, and makes strategic decisions.

(d) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entities operates (functional currency), the Bahamian dollar. The consolidated financial statements are presented in Bahamian dollars, which is also the Group'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 assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the consolidated 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.

(e) Cash and cash equivalents

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

(f) 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 Group 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).

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(Continued)

3. Significant Accounting Policies (Continued)

(f) Receivables and other assets (continued)

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 consolidated statement of comprehensive income within provision for doubtful accounts.

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

(g) Investments and other financial assets

Classification

The Group 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) 'available-for-sale' (AFS) and (iv) 'loans and receivables'. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its 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.

i) Financial assets at fair value through profit or loss

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

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 Group 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 Group'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.

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(g) Investments and other financial assets (continued)

Classification (Continued)

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 Group 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 Group 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.

iii) 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.

iv) 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 Group 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.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group 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 Group 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.

FamGuard Corporation Limited

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(Continued)

3. Significant Accounting Policies (Continued)

(g) Investments and other financial assets (continued)

Measurement

At initial recognition, the Group 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.

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 as at FVTPL.
- 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 consolidated statement of comprehensive income as part of dividend income when the Group'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 consolidated statement of comprehensive income as part of interest income.

Impairment

The Group 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.

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(Expressed in Bahamian dollars)
(Continued)

3. Significant Accounting Policies (Continued)

(g) Investments and other financial assets (continued)

Impairment (continued)

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 Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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).

(h) Loans

Policy loans

Policy loans arise when the Group 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 Group 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.

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(Continued)

3. Significant Accounting Policies (Continued)

(h) Loans (continued)

Mortgages (continued)

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 Group 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.

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 consolidated 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 consolidated 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.

(i) 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 is 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 Group 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 the consolidated statement of comprehensive income during the reporting period in which they are incurred.

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(i) Property and equipment (continued)

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 net income, 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 their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

Freehold buildings	2.5% per annum
Freehold land improvement	10% 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

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 consolidated statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(j) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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(Continued)

3. Significant Accounting Policies (Continued)

(k) 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.

(l) 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 Group'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 Group has designated insurance contracts without DPF as financial liabilities at FVTPL upon initial recognition.

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 net income 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 consolidated statement of comprehensive income.

Trade and other payables, including balances due to insurer, represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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(Continued)

3. Significant Accounting Policies (Continued)

(l) Financial liabilities (Continued)

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 consolidated statement of comprehensive income.

(m) Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

(n) Employee benefits

i) Pension obligations

The Group has a defined contribution pension plan for eligible agents and employees whereby the Group pays contributions to a pension plan separately administered by the Group. The Group 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 Group contributes 5% of eligible earnings. The Group's contributions to the defined contribution pension plan are recognised in the consolidated statement of comprehensive income in the year to which they relate.

ii) Postretirement medical benefit plan

The Group provides supplementary health insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The benefits under this plan are contributory. For the postretirement medical benefit plan, the cost of providing benefits is determined using the projected unit credit method, with independent actuarial valuations being carried out at the end of each annual reporting period. 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.

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(Continued)

3. Significant Accounting Policies (Continued)

(n) Employee benefits (continued)

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 Group presents the first two components of the defined benefit costs in the consolidated 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 consolidated 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 consolidated statement of comprehensive income.

Past service cost is recognised in the consolidated statement of comprehensive income in the period of a plan amendment. The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group'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.

iii) *Share-based payments*

The Group operates an Executive Incentive Plan for key management employees. Under this plan, eligible employees are granted common shares of the Company as special awards for a promotion to or upon hiring at the executive level. The Group makes cash awards to the plan as the need arises and the plan purchases shares on the open market at market value. The shares vest over a period of years, depending on the type of award granted. The share based payments are measured at the fair value of the equity instruments at the grant date. The cost of these benefits to the Group amounted to \$Nil (2018: \$245,390) and are included in employee salary and benefit expenses.

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(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(o) 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.

(p) 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.

(q) Reserves for insurance contracts

The provisions for actuarial liabilities of long-term insurance contracts are determined using accepted actuarial practices established by the Canadian Institute of Actuaries (“CIA”) and are determined by the Group’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 Group 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 Group 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.

FamGuard Corporation Limited

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(Continued)

3. Significant Accounting Policies (Continued)

(q) 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 group 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 Group, comprise unearned premiums plus a contingency reserve for claims.

(r) Insurance contracts

i) Classification

The Group 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 Group 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 Discretionary Participation Feature (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 Group; 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 Group.

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

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(Continued)

3. Significant Accounting Policies (Continued)

(r) 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 consolidated 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 consolidated statement of financial position date, even if they have not yet been reported to the Group. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group 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.

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

3. Significant Accounting Policies (Continued)

(r) Insurance contracts (continued)

Long-term insurance contracts without 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. 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 Group. As the Group declares the bonus to be paid, it is credited to the individual policyholders.

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(Continued)

3. Significant Accounting Policies (Continued)

(s) Reinsurance transactions

In the normal course of its life and health insurance business, the Group 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(p) are classified as reinsurance contracts held.

The benefits to which the Group 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 consolidated statement of financial position.

(t) Non-premium revenue recognition

Fee and non-insurance commission income are recognised on an accrual basis when the service has been provided and the performance obligation met. Commissions earned on insurance policies are recognised when the policies are written and the Group has no further significant service obligations associated with the policy. The recognition of profit commissions is dependent on the loss experience underlying the relevant policies.

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 Group 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 Group 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.

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(Continued)

3. Significant Accounting Policies (Continued)

(t) Non-premium revenue recognition (continued)

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.

(u) Commission expense

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

(v) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially recognised at the present value of the lease liability, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

FamGuard Corporation Limited

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(Continued)

3. Significant Accounting Policies (Continued)

(v) Leases (continued)

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments, including insubstance fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. Refer to Note 4(i) for how the Group determines the rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented on the consolidated statement of financial position (see Note 18).

iii) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

(w) Policy dividends on deposits

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

FamGuard Corporation Limited

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(Continued)

3. Significant Accounting Policies (Continued)

(x) Taxation

Under the current laws of The Bahamas, the country of domicile of the Group, there are no income, capital gains or other corporate taxes imposed. The Group 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.

(y) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares. There are no dilutive transactions that would have an impact on earnings per share.

(z) Dividend distribution

Dividend distribution to the Group's shareholders is recognised in the consolidated 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 consolidated financial statements, are disclosed as a subsequent event.

(aa) Issues and redemptions of participating shares

Up to 31 May 2019, the Group issued participating, non-voting shares which were redeemable for cash equal to a proportionate share of the net assets of the Fund. These were classified as non-controlling interests in the consolidated statement of financial position. These shares were recorded at prices calculated monthly, based on the net asset value of the Fund. Participation in the Fund was limited to eligible investors as described in the Fund's Prospectus.

(ab) 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).

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(Continued)

3. Significant Accounting Policies (Continued)

(ac) Discontinued operations

A discontinued operation is a component of the Group that has been disposed of and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such line of business or area of operations, or is a subsidiary acquired exclusively with a view of resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

(ad) Corresponding Figures

Corresponding figures have been adjusted to conform with the current year presentation as follows:

Margin loan balances included in Receivables and other assets have been reclassified to Loans on the consolidated statement of financial position.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

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

a. Classification of insurance contracts

The classification of contracts with policyholders is dependent on critical judgements made by the Group. 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 Group 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.

FamGuard Corporation Limited

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(Continued)

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

Critical judgments in applying the Group's accounting policies (continued)

b. Control over the Fund

Until its deconsolidation on 31 May 2019, the Group consolidated FG Financial Fund Limited SAC, an affiliated umbrella fund.

In taking the decision to consolidate the Fund, Management assessed whether or not the Group had control over the Fund based on the requirements of IFRS 10 *Consolidated Financial Statements* (IFRS 10). In its determination, Management concluded that the Group had the ability to direct the relevant activities of the Fund unilaterally given that the majority of the Board members of the Fund also served as Directors of the Group and the Fund's Board was selected by 100% of the voting rights held by a subsidiary in the Group. The Group also obtained exposure or rights to variable returns through its direct investment and the investment of other related parties (de facto agents). It was therefore concluded that the Group had the power to direct the relevant activities of the Fund and exposure or rights to variable returns resulting in control over FG Financial Fund Limited SAC. Effective 31 May 2019, as part of the disposal of its Investment Management Business, the Group transferred the management shares which represented 100% of the voting shares in the Fund to the acquirer, and the members of the Board of Directors were replaced by new directors appointed by the acquirer. Thereafter the Group determined that as it no longer had the power to direct the relevant activities of the Fund it was no longer appropriate to consolidate the Fund's financial statements.

Key sources of estimation uncertainty-critical accounting estimates

The preparation of consolidated 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 consolidated 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 Group's financial statements and related disclosure must be estimated, requiring the Group to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the Group'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 Group evaluates such estimates on an ongoing basis, based upon historical results and experience, 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.

FamGuard Corporation Limited

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(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. *Estimate 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 Group is exposed to risk. The Group bases these estimates on mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group'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 Group 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 Group 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 Group. 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 Group's past claims experience, which is used to project future claims cost.

c. *Impairment of non-financial assets*

The Group has made significant investments in tangible and intangible 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.

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.

FamGuard Corporation Limited

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(Continued)

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

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

d. Revaluation of property and equipment

The Group measures its land and buildings at revalued amounts triennially, with changes in fair value being recognised in the revaluation reserve in the consolidated statement of financial position. An independent valuation of the Group'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 Group 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 Group 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 judgment. In making this judgment, the Group 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.

g. Retirement benefit obligation

The Group'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. 2019 average per capita costs for retirees was estimated by age groupings.

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

FamGuard Corporation Limited

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(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)

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 Group, based on historical experience and other factors that are considered to be relevant. Where no market data is available, the Group 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i. Leases- Estimation of incremental borrowing rate

The Group is unable to readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

5. Management of Insurance and Financial Risk

The Group issues contracts that transfer insurance risk, financial risk or both. The Group's activities expose it to a variety of financial risks, including the effects of changes in equity market prices and interest rates. The Group'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 Group.

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 Group 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 value 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:

	2019					Total
	FVTPL	Loans and Receivables	Held-to-Maturity	Available For Sale	All Other Financial Liabilities	
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash and cash equivalents	-	20,295,541	-	-	-	20,295,541
Financial investment assets	19,900,129	86,412,527	143,441,417	11,467,971	-	261,222,044
Reinsurance assets	-	3,536,748	-	-	-	3,536,748
Receivables and other assets	-	17,023,686	-	-	-	17,023,686
	<u>19,900,129</u>	<u>127,268,502</u>	<u>143,441,417</u>	<u>11,467,971</u>	<u>-</u>	<u>302,078,019</u>
Financial Liabilities						
Other						
Policyholders' funds	-	-	-	-	20,426,183	20,426,183
Payables and accrual	-	-	-	-	14,118,955	14,118,955
Lease liabilities	-	-	-	-	548,691	548,691
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,093,829</u>	<u>35,093,829</u>

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(Expressed in Bahamian dollars)

(Continued)

5. Management of Insurance and Financial Risk (Continued)

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

	2018					Total
	FVTPL	Loans and Receivables	Held-to-Maturity	Available For Sale	All Other Financial Liabilities	
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash and cash equivalents	-	9,853,144	-	-	-	9,853,144
Financial investment assets	12,670,798	87,539,879	185,949,173	13,184,526	-	299,344,376
Reinsurance assets	-	5,172,056	-	-	-	5,172,056
Receivables and other assets	-	16,715,140	-	-	-	16,715,140
	<u>12,670,798</u>	<u>119,280,219</u>	<u>185,949,173</u>	<u>13,184,526</u>	<u>-</u>	<u>331,084,716</u>
Financial Liabilities						
Other Policyholders' funds	-	-	-	-	19,027,437	19,027,437
Payables and accrual	-	-	-	-	13,702,599	13,702,599
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,730,036</u>	<u>32,730,036</u>

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).

FamGuard Corporation Limited

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(Continued)

5. Management of Insurance and Financial Risk (Continued)

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

	2019			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
FINANCIAL INVESTMENT ASSETS				
FVTPL	19,900,129	-	-	19,900,129
Available-for-sale	-	11,467,971	-	11,467,971
	<u>19,900,129</u>	<u>11,467,971</u>	<u>-</u>	<u>31,368,100</u>
	2018			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
FINANCIAL INVESTMENT ASSETS				
FVTPL	-	12,670,798	-	12,670,798
Available-for-sale	-	13,184,526	-	13,184,526
	<u>-</u>	<u>25,855,324</u>	<u>-</u>	<u>25,855,324</u>

The Group did not have any financial instruments classified as Level 3 as at 31 December 2019 and 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 Group 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.

FamGuard Corporation Limited

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(Continued)

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

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.

The Group 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 Group retains a range of \$75,000 to \$100,000 (2018: \$75,000 to \$100,000) coverage per individual life and individual accidental death benefit.

Under the quota share contracts, the Group retains 50% of the face amount per individual life and accidental death benefit to a maximum of \$100,000 on any one life insured. Individual and group medical retention limit is retained at \$225,000 (2018: \$225,000) 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 Group 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 Group'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.

	2019	2018
	\$	\$
0 - 9,999	123,726,848	122,970,923
10,000 - 24,999	355,480,308	360,660,728
25,000 - 49,999	138,182,598	134,366,477
50,000 and over	1,040,723,663	1,008,800,186
	<u>1,658,113,417</u>	<u>1,626,798,314</u>

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(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 consolidated statement of financial position on 31 December 2019. (All amounts are in \$000).

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Notes to the Consolidated Financial Statements (Expressed in Bahamian dollars) 31 December 2019 (Continued)

5. Management of Insurance and Financial Risk (Continued)

	Year claim is incurred											Total
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
Estimate of ultimate Gross claims	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
End of year incurred	42,755	40,557	36,610	34,811	36,567	43,834	39,830	45,109	55,709	60,749	436,531	
One year later	43,813	39,517	35,453	34,136	35,711	43,971	40,703	46,899	55,584			
Two years later	43,873	39,564	35,832	33,913	35,885	43,968	40,820	46,966	-			
Three years later	43,912	39,547	35,301	33,954	35,888	44,072	40,825	-	-			
Four years later	43,902	39,541	35,315	33,914	35,900	44,066	-	-	-			
Current (31 December 2019)												
estimate of ultimate claims	43,902	39,541	35,315	33,914	35,900	44,066	40,825	46,966	55,584	60,749	436,762	
Cumulative payments (through												
31 December 2019)	43,902	39,541	35,315	33,914	35,900	44,066	40,824	46,956	55,507	51,081	427,006	
Current (31 December 2019) statement of financial position liability	-	-	-	-	-	-	1	10	77	9,668	9,756	

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019 (Expressed in Bahamian dollars) (Continued)

5. Management of Insurance and Financial Risk (Continued)

	Year claim is incurred											Total
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of ultimate net claims												
End of year incurred	38,848	37,645	34,607	32,832	34,718	41,712	38,260	42,528	51,055	53,335	405,540	
One year later	38,407	36,260	33,963	31,617	33,682	41,296	38,927	42,846	50,289			
Two years later	38,443	36,308	34,157	31,496	33,807	41,294	39,024	42,897	-			
Three years later	38,482	36,294	34,077	31,533	33,812	41,397	39,028	-	-			
Four years later	38,475	36,289	34,091	31,495	33,824	41,392	-	-	-			
Current (31 December 2019) estimate of ultimate claims	38,475	36,289	34,091	31,495	33,824	41,392	39,028	42,897	50,289	53,335	401,115	
Cumulative payments (through 31 December 2019)	38,475	36,289	34,091	31,495	33,824	41,391	39,027	42,888	50,220	44,653	392,353	
Current (31 December 2019) statement of financial position liability	-	-	-	-	-	1	1	9	69	8,682	8,762	

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

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(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 Group 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 consolidated statement of comprehensive income would increase or decrease by \$2,071,463 (2018: \$2,518,279).

d. *Price risk*

Market 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 Group manages its risk through the Investment Committee, which monitors the price movement of securities on 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 \$1,028,966 (2018: \$987,137) and net income of \$1,990,013 (2018: \$1,267,080). Management mitigates this risk by diversification of its portfolio.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

5. Management of Insurance and Financial Risk (Continued)

e. Credit risk

The Group 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 consolidated statement of financial position where the Group is exposed to credit risk are:

- Cash and term deposits placed with banks
- Mortgage loans and loans to policyholders
- Amounts due from reinsurers
- Amounts due from insurance policyholders
- Debt instruments

The Group's cash and 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 Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group 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 finalization of any contract. The Group 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-.

The Group invests in debt instruments which have been issued or guaranteed by the The Government of the Bahamas and companies that are in good standing and have had no history of default on payment of principal or interest. The Group minimises its exposure to credit risk by holding a diversified portfolio of debt instruments with established maximum holding limits for each investment asset group. The Group also has established limits on investments held with any one institution.

f. Liquidity risk

The Group 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 Group 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.

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

5. Management of Insurance and Financial Risk (Continued)

f. Liquidity risk (continued)

	2019					
	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
	\$	\$	\$	\$	\$	\$
Short-term insurance contracts	-	9,187,462	-	-	-	9,187,462
Long-term with fixed and guaranteed terms	794,605	(6,879,416)	(10,527,662)	11,506,165	354,333,504	349,227,196
Long-term without fixed and guaranteed terms	70,082,252	1,248,834	6,936,816	12,269,764	71,191,317	161,728,983
Long-term without fixed and guaranteed terms and with DPF	-	337,343	3,374,074	7,109,276	57,231,025	68,051,718
Total	<u>70,876,857</u>	<u>3,894,223</u>	<u>(216,772)</u>	<u>30,885,205</u>	<u>482,755,846</u>	<u>588,195,359</u>

	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	<u>72,841,269</u>	<u>1,377,614</u>	<u>(1,611,412)</u>	<u>29,040,163</u>	<u>453,439,351</u>	<u>555,086,985</u>

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(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 financial liabilities:

	Not Classified	2019				Total
		Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	
	\$	\$	\$	\$	\$	\$
ASSETS						
Cash on hand and at banks	-	20,295,541	-	-	-	20,295,541
Reinsurance assets	3,536,748	-	-	-	-	3,536,748
Receivables and other assets	10,220,818	6,802,868	-	-	-	17,023,686
Financial investment assets						
FVTPL securities	-	19,900,129	-	-	-	19,900,129
AFS Securities	-	11,467,971	-	-	-	11,467,971
Held-to-maturity	-	7,089,629	25,048,627	21,122,162	90,180,999	143,441,417
Loans	17,853,022	2,989,799	3,351,349	10,948,811	51,269,546	86,412,527
	31,610,588	68,545,937	28,399,976	32,070,973	141,450,545	302,078,019
LIABILITIES						
Other policyholders' funds	-	20,426,183	-	-	-	20,426,183
Payables and accruals	-	14,118,955	-	-	-	14,118,955
Lease liabilities	-	34,753	513,938	-	-	548,691
	-	34,579,891	513,938	-	-	35,093,829
2018						
	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
	\$	\$	\$	\$	\$	\$
ASSETS						
Cash on hand and at banks	-	9,853,144	-	-	-	9,853,144
Reinsurance assets	5,172,056	-	-	-	-	5,172,056
Receivables and other assets	7,536,726	9,178,414	-	-	-	16,715,140
Financial investment assets						
FVTPL securities	-	12,670,798	-	-	-	12,670,798
AFS Securities	-	13,184,526	-	-	-	13,184,526
Held-to-maturity	-	19,394,853	44,563,009	22,596,300	99,395,011	185,949,173
Loans	14,636,642	2,648,735	4,843,782	12,493,309	52,917,411	87,539,879
	27,345,424	66,930,470	49,406,791	35,089,609	152,312,422	331,084,716
LIABILITIES						
Other policyholders' funds	-	19,027,437	-	-	-	19,027,437
Payables and accruals	-	13,702,599	-	-	-	13,702,599
	-	32,730,036	-	-	-	32,730,036

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

5. Management of Insurance and Financial Risk (Continued)

g. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2018.

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 Group exceeded both the statutory margin and minimum ratio requirements of qualified admissible assets.

In addition to the solvency margins required by the regulators, the Group measures its solvency ratio using Canadian reserve methodologies and solvency standards as measured by the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). At December 31, 2019, the Group's MCCSR ratio exceeded the required target of 150%.

The capital structure of the Group 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.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

6. Financial Investment Assets

Financial investment assets comprise the following:

	2019	2018
	\$	\$
(a) Fair value through profit or loss (FVTPL):		
At beginning of year	12,670,798	12,970,726
Addition due to loss of control of mutual funds (Note 31)	5,955,593	
Purchase of equities	-	3,437
Pension forfeitures reinvested	142,991	-
Net change in accrued interest	-	127,309
Change in unrealised loss on investment at FVTPL	1,130,747	(430,674)
At end of year	19,900,129	12,670,798
(b) Available for sale (AFS):		
At beginning of year	9,871,366	10,593,643
Purchase of equities	-	552,935
Sale of equities	(270,000)	(689,990)
Net change in fair value on AFS financial assets	688,293	(585,222)
	10,289,659	9,871,366
Investment in redeemable preference shares	1,741,000	3,999,040
Maturity of preference shares	(571,000)	(752,180)
Add: Accrued interest receivable	8,312	66,300
	1,178,312	3,313,160
At end of year	11,467,971	13,184,526

FamGuard Corporation Limited

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31 December 2019

(Expressed in Bahamian dollars)

(Continued)

6. Financial Investment Assets (Continued)

Investments in equities are comprised of ordinary shares in Bahamian companies that are listed on The Bahamas International Securities Exchange (“BISX”).

Held-to-maturity securities have interest rates ranging from 4.25% to 10.0% per annum (2018: 1.43% to 8.50%) and scheduled maturities between 2020 and 2048 (2018: 2019 and 2048).

	2019	2018
	\$	\$
(c) Held-to-maturity (HTM):		
Bahamas Government bonds	103,326,075	127,770,813
Bahamas Mortgage Corporation bonds	9,300,000	10,100,000
Education Loan Authority bonds	3,800,000	7,300,000
Clifton Heritage bonds	2,004,800	2,238,600
Bridge Authority bonds	<u>307,400</u>	<u>819,900</u>
Government bonds, at amortised cost	118,738,275	148,229,313
Add: Accrued interest receivable	<u>1,791,510</u>	<u>2,039,223</u>
	<u>120,529,785</u>	<u>150,268,536</u>
Redeemable preference shares, at amortised cost	8,065,224	12,776,560
Add: Accrued interest receivable	<u>36,652</u>	<u>52,376</u>
	<u>8,101,876</u>	<u>12,828,936</u>
Corporate bonds, at amortised cost	14,688,913	20,695,396
Add: Accrued interest receivable	<u>120,843</u>	<u>216,640</u>
	<u>14,809,756</u>	<u>20,912,036</u>
Other bank term deposits, at amortised cost	-	1,933,038
Add: Accrued interest receivable	<u>-</u>	<u>6,627</u>
	<u>-</u>	<u>1,939,665</u>
At end of year	<u>143,441,417</u>	<u>185,949,173</u>

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

6. Financial Investment Assets (Continued)

In 2011, in accordance with the Insurance Act 2005 (Amended), the Group 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, which is included in Held to Maturity financial investment assets, is restricted for regulatory purposes; however, the interest income on these stocks accrues to the Group.

In accordance with amendments dated 13 October 2008 to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, the Group 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 2019 is \$9,045,443 (2018: \$8,639,904).

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 \$2,683,486 gain (2018: \$2,277,947 gain) taking into consideration impairment losses previously transferred to net income.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019 (Expressed in Bahamian dollars) (Continued)

6. Financial Investment Assets (Continued)

	2019	2018
	\$	\$
(d) Loans:		
(i) Policy loans comprise:		
Policy loans	14,613,945	13,552,372
Automatic premium loans	<u>3,698,798</u>	<u>3,502,724</u>
	18,312,743	17,055,096
Less: Specific provision for credit risk	(456,274)	(267,823)
Add: Accrued interest receivable	<u>932,950</u>	<u>871,565</u>
	<u>18,789,419</u>	<u>17,658,838</u>
(ii) Mortgage loans comprise:		
Commercial:		
Current	652,881	903,059
Past due but not impaired	113,099	-
Over 90 days	434,549	554,360
Residential:		
Current	55,771,939	59,229,697
Past due but not impaired	8,075,699	6,805,115
Over 90 days	<u>3,094,200</u>	<u>2,851,950</u>
	68,142,367	70,344,181
Less: Specific provision for credit risk	(2,049,215)	(1,729,834)
Deferred commitment fees	<u>(439,267)</u>	<u>(420,797)</u>
	65,653,885	68,193,550
Add: Accrued interest receivable	329,267	<u>313,035</u>
	<u>65,983,152</u>	<u>68,506,585</u>
(iii) Margin loans	<u>1,639,956</u>	<u>1,374,456</u>
Total loans	<u>86,412,527</u>	<u>87,539,879</u>

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019 (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% (2018: 0% to 11%) per annum is charged on policy loans and APLs.

Movements in loan loss provisions are as follows:

	Specific Provision \$
Balance as at 31 December 2017	1,842,757
Bad debt expense	296,013
Bad debt written off	(408,936)
Recovery of bad debt	<u>-</u>
Balance as at 31 December 2018	1,729,834
Bad debt expense	458,821
Recovery of bad debt	<u>(139,440)</u>
Balance as at 31 December 2019	<u>2,049,215</u>

An interest rate of 5.25% per annum (2018: 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 interest rates between 5% to 7.75% (2018: 5.0% to 5.75%) in the amount of \$1,395,584 (2018: \$807,780). Related party interest income from mortgages for the year ended 31 December 2019 is \$82,123 (2018: \$18,016) and related party interest receivable on mortgages as at 31 December 2019 is \$4,929 (2018: \$1,214).

As at 31 December 2019, the Group had non-performing mortgage loans of \$3,528,749 (2019: \$4,528,531) for which interest of \$1,447,728 (2018: \$1,390,636) had not been recognised in the consolidated statement of comprehensive income. Management has determined that mortgage loans totaling \$8,188,796 (2018: \$5,461,695) are past due but not considered impaired.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

6. Financial Investment Assets (Continued)

During the year, the Group sold properties under power of sale. The fair value of the collateral sold under power of sale was \$313,000 (2018: \$424,000). The unrecoverable portion of the principal was provided for and is included in net bad debt expenses in the consolidated statement of comprehensive income.

7. Receivables and Other Assets

Receivables and other assets comprise:

	2019	2018
	\$	\$
Reinsurance recoveries	9,720,818	7,536,726
Other receivables and other assets	2,210,858	3,854,938
Premium receivables	3,869,407	4,849,446
Receivables from general insurance clients	743,840	528,011
Prepayments and deposits	<u>985,760</u>	<u>465,949</u>
	17,530,683	17,235,070
Less: allowance for doubtful accounts	<u>(21,237)</u>	<u>(53,981)</u>
	<u>17,509,446</u>	<u>17,181,089</u>

The movement in allowance for doubtful accounts is as follows:

	2019	2018
	\$	\$
Balance, beginning of year	53,981	1,310,810
Bad debt expense	164,727	468,727
Bad debt written off	<u>(197,471)</u>	<u>(1,725,556)</u>
Balance, end of year	<u>21,237</u>	<u>53,981</u>

Due to the short-term nature of the accounts receivable, their carrying amount is considered to approximate its fair value.

Management has deemed \$997,999 (2018: \$2,338,891) of premium receivables and receivables from general insurance clients to be past due but not impaired.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019 (Expressed in Bahamian dollars) (Continued)

8. Property and Equipment

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

	Freehold Land	Freehold Buildings	Furniture & Equipment	Motor Vehicles	Computer Hardware & Software	Freehold Building Improvements	Leasehold Improvements	Work in Progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Year ended 31 December 2019									
Opening net book amount	10,255,002	18,912,702	430,496	33,881	1,003,160	-	-	7,063,065	37,823,889
Additions	-	24,045	62,752	-	1,331,586	14,300	37,631	2,040,433	3,510,747
Revaluations	-	-	-	-	-	-	-	-	-
Transfers	-	416,345	99,522	-	3,780,357	-	-	(4,373,015)	(76,791)
Disposals - cost	-	-	-	-	-	-	-	(340,018)	(340,018)
Depreciation charge	-	(458,720)	(205,756)	(7,744)	(951,616)	-	-	-	(1,623,836)
Disposals - accumulated depreciation	-	-	-	-	-	-	-	-	-
Closing net book amount	10,255,002	18,894,372	387,014	26,137	5,163,487	14,300	37,631	4,390,465	39,293,991
As at 31 December 2019									
Cost or revaluation	10,255,002	19,649,014	5,409,077	98,690	10,574,486	14,300	1,069,672	6,595,908	53,791,732
Work in progress	-	-	-	-	-	-	-	(2,205,443)	-
Accumulated depreciation	-	(754,642)	(5,022,063)	(72,553)	(5,410,999)	-	(1,032,041)	-	(12,292,298)
Net book amount	10,255,002	18,894,372	387,014	26,137	5,163,487	14,300	37,631	4,390,465	39,293,991

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements 31 December 2019 (Expressed in Bahamian dollars) (Continued)

8. Property and Equipment (Continued)

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

	2018							Total
	Freehold Land	Freehold Buildings	Furniture & Equipment	Motor Vehicles	Computer Hardware & Software	Leasehold Improvements	Work in Progress	
	\$	\$	\$	\$	\$	\$	\$	\$
Year ended 31 December 2018								
Opening net book amount	10,255,002	19,890,000	350,790	19,473	1,261,005	39,496	4,987,547	36,803,313
Additions	-	78,237	50,809	20,619	246,197	-	2,075,518	2,471,380
Transfers	-	-	-	-	-	-	-	-
Transfers	-	(227,840)	267,336	-	-	(39,496)	-	-
Disposals - cost	-	-	-	-	-	-	-	-
Depreciation charge	-	(702,112)	(238,439)	(6,211)	(504,042)	-	-	(1,450,804)
Disposals - accumulated depreciation	-	-	-	-	-	-	-	-
Closing net book amount	10,255,002	19,038,285	430,496	33,881	1,003,160	-	7,063,065	37,823,889
As at 31 December 2018								
Cost or revaluation	10,255,002	19,740,397	5,514,137	98,691	5,471,225	1,032,041	4,987,547	47,099,040
Work in progress	-	-	-	-	-	-	2,075,518	2,075,518
Accumulated depreciation	-	(702,112)	(5,083,641)	(64,810)	(4,468,065)	(1,032,041)	-	(11,350,669)
Net book amount	10,255,002	19,038,285	430,496	33,881	1,003,160	-	7,063,065	37,823,889

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Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

8. Property and Equipment (Continued)

The Group'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 Group's land and buildings as at 31 December 2017 was performed by a qualified independent property appraiser.

The fair value of the land and buildings was 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 have been revalued during 2017. Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been \$18,544,966 (2018: \$20,765,517).

Details of the Group's freehold land and buildings, as per the fair value hierarchy at 31 December 2019, is as follows:

	2019			Total
	Level 1	Level 2	Level 3	
	\$	\$	\$	\$
Freehold land	-	-	10,255,002	10,255,002
Freehold buildings	-	-	18,894,372	18,894,372
	-	-	<u>29,149,374</u>	<u>29,149,374</u>
2018				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Freehold land	-	-	10,255,002	10,255,002
Freehold buildings	-	-	19,038,285	19,038,285
	-	-	<u>29,293,287</u>	<u>29,293,287</u>

The assets are required to be measured at fair value on a recurring basis.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

9. Intangible Asset

In 2012, the Group acquired a portfolio of insurance contracts for \$1,000,000 through the undertaking of one of its subsidiaries. The Group recognised an intangible asset representing the value of customer relationships and contracts acquired.

The movement in the intangible asset is as follows:

	2019	2018
	\$	\$
At cost	<u>1,000,000</u>	<u>1,000,000</u>
Accumulated amortisation:		
Balance, beginning of year	1,000,000	900,000
Amortisation	-	100,000
Impairment loss	<u>-</u>	<u>-</u>
Balance, end of year	<u>1,000,000</u>	<u>1,000,000</u>
Net book value	<u><u>-</u></u>	<u><u>-</u></u>

10. Reserves for Future Policyholders' Benefits

The Group's actuarial reserving methodology for the determination of reserves for future policyholders' benefits is the Canadian Asset Liability Method ("CALM") 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 2019, the aggregate reserves for future policyholders' benefits and related insurances in-force are summarised as follows:

	Reserves		Insurances in force	
	2019	2018	2019	2018
	\$	\$	\$	\$
Ordinary life	95,666,975	90,990,731	2,436,502,634	2,356,031,000
Annuities	77,020,075	78,132,313	-	-
Home service life	35,648,902	35,364,680	566,689,304	566,901,000
Accident and health	<u>11,639,073</u>	<u>8,812,721</u>	<u>-</u>	<u>-</u>
Gross liabilities	219,975,025	213,300,445	3,003,191,938	2,922,932,000
Reinsurance assets	<u>(3,536,748)</u>	<u>(5,172,056)</u>	<u>-</u>	<u>-</u>
	<u>216,438,277</u>	<u>208,128,389</u>	<u>3,003,191,938</u>	<u>2,922,932,000</u>

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

10. Reserves for Future Policyholders' Benefits (Continued)

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 Group experience. Assumptions for other business lines are based on industry experience, as the Group 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 \$5,571,626 (2018: \$5,672,029) or decrease by \$5,690,288 (2018: \$5,772,216).

(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 rates curves, whereas the Group's most adverse plausible scenario assumes 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 \$20,508,979 (2018: \$18,993,066) or decrease by \$27,787,328 (2018: \$26,953,039).

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

10. Reserves for Future Policyholders' Benefits (Continued)

(iii) *Persistency*

Lapse rates are based on the Group's experience where credible experience is available and industry experience is used where credible Group 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 \$1,698,780 (2018: \$1,262,325) or decrease by \$2,036,473 (2018: \$1,514,486).

(iv) *Expenses*

Expenses are based on best estimates of Group experience. Expenses are increased 10% as a margin for adverse deviation. Expenses are assumed to increase annually at a rate of 2.0% (2018: 2.0%) initially, decreasing to 1.75% (2018: 1.75%) over 20 years. If future expenses were to differ by 10% from that assumed, the liability would increase by \$3,956,635 (2018: \$4,158,443) or decrease by \$3,938,882 (2018: \$4,131,939).

(v) *Ongoing Review*

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

(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 Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

FamGuard Corporation Limited

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10. Reserves for Future Policyholders' Benefits (Continued)

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:

	2019	2018
	\$	\$
Liabilities at beginning of year	6,291,975	5,968,578
Change in Data, Methods, and Assumptions	-	(110)
Usual change in In-Force Business and New Business	<u>2,265,491</u>	<u>953,507</u>
Liabilities at end of year	<u>9,187,466</u>	<u>6,921,975</u>

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

	2019	2018
	\$	\$
Liabilities at beginning of year	74,091,348	72,527,476
Changes in Data, Methods, and Assumptions	(3,420,954)	(3,001,632)
New Business	(3,001,289)	(4,152,479)
Usual change in In-Force Business	<u>8,809,207</u>	<u>8,717,983</u>
Liabilities at end of year	<u>76,478,312</u>	<u>74,091,348</u>

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

	2019	2018
	\$	\$
Liabilities at beginning of year	103,224,444	98,231,626
Changes in Data, Methods, and Assumptions	(1,052,644)	(1,768,455)
New Business	5,904,500	7,452,909
Usual change in In-Force Business	<u>(1,187,991)</u>	<u>(691,636)</u>
Liabilities at end of year	<u>106,888,309</u>	<u>103,224,444</u>

FamGuard Corporation Limited

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(Expressed in Bahamian dollars)

(Continued)

10. Reserves for Future Policyholders' Benefits (Continued)

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

	2019	2018
	\$	\$
Liabilities at beginning of year	23,890,622	24,012,886
Changes in Data, Methods, and Assumptions	(349,835)	(563,512)
New Business	(623,430)	(239,917)
Usual change in In-Force Business	<u>966,833</u>	<u>681,165</u>
Liabilities at end of year	<u>23,884,190</u>	<u>23,890,622</u>

Total for all lines of business:

	2019	2018
	\$	\$
Liabilities at beginning of year	208,128,389	200,740,566
Changes in Data, Methods, and Assumptions	(4,823,433)	(5,333,709)
New Business	2,279,781	3,060,513
Usual change in In-Force Business	<u>10,853,540</u>	<u>9,661,019</u>
Liabilities at end of year	<u>216,438,277</u>	<u>208,128,389</u>

FamGuard Corporation Limited

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(Continued)

11. Other Policyholders' Funds

Other policyholders' funds are comprised of the following:

	2019	2018
	\$	\$
Benefits payable to policyholders	14,276,533	13,643,627
Accrued policyholder dividends	3,623,787	3,553,143
Unapplied Premiums	914,121	964,820
Advance premiums	1,611,742	865,847
	<u>20,426,183</u>	<u>19,027,437</u>

12. Payables and Accruals

Payables and accruals are comprised of the following:

	2019	2018
	\$	\$
General payables and accruals	10,650,702	5,602,337
Client deposits	-	4,405,755
Employee liabilities	2,518,231	2,640,740
Reinsurance payable	950,022	1,053,767
	<u>14,118,955</u>	<u>13,702,599</u>

Included in general payables and accruals are insurance claim proceeds held in escrow on behalf of mortgage clients. Client deposits were transferred as a part of the sale of the Securities Business of FG Capital Markets Limited as outlined in Note 31.

The carrying amount of payables and accruals are considered to approximate its fair value.

13. Bank Overdraft Facilities

The Group has bank overdraft facilities of \$250,000 (2018: \$250,000). Amounts utilised under the facilities attract interest at Nassau prime 4.25% plus 1.5% (2018: 4.25% plus 1.5%).

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(Expressed in Bahamian dollars)
(Continued)

14. Revaluation Reserve

Revaluation reserve is comprised of the following:

	Financial Investment Assets (AFS) Revaluation \$	Fixed Assets Revaluation \$	Total Revaluation Reserve \$
Balance as at 31 December 2017	3,121,529	16,070,423	19,191,952
Realised gains reclassified to net income	(1,230)	-	(1,230)
Unrealised losses on available-for-sale investments	<u>(585,222)</u>	<u>-</u>	<u>(585,222)</u>
Balance as at 31 December 2018	2,535,077	16,070,423	18,605,500
Realised gains reclassified to net income	(223,465)	-	(223,465)
Unrealised gains on available-for-sale investments	<u>688,292</u>	<u>-</u>	<u>688,292</u>
Balance as at 31 December 2019	<u>2,999,904</u>	<u>16,070,423</u>	<u>19,070,327</u>

15. Share Capital

The Group's share capital is comprised as follows:

	Variable Rate Cumulative Redeemable Preference Shares of \$1,000 each par value		Ordinary Shares of \$0.20 each par value	
	2019	2018	2019	2018
Authorised	<u>10,000</u>	<u>10,000</u>	<u>15,000,000</u>	<u>15,000,000</u>
Issued and fully paid	<u>\$5,000,000</u>	<u>\$5,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>
Shares outstanding at beginning of year	<u>10,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Shares outstanding at end of year	<u>5,000</u>	<u>5,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

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(Continued)

15. Share Capital (Continued)

The Variable Rate Cumulative Redeemable Preference Shares (preference shares) carry a dividend rate of Nassau prime plus 1.5% per annum payable semi-annually. Dividends are declared by the Board of Directors at their sole discretion. The preference shares have no predetermined maturity date, yet the Group may call for the redemption of all or part of the issue on or after December 31, 2005 upon 90 days written notice at the sole discretion of the Group. The preference shares rank with respect to the payment of dividends and distributions on liquidation: (1) senior to the Group's ordinary shares and (2) subordinate to any debentures, debt obligations, or policyholder claims currently or which the Group may enter into.

The holders of the preference shares have no equity ownership or voting rights. There were no outstanding cumulative preference share dividends at the end of the year.

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

Redemption of Preference shares

During 2018, the Group redeemed 5,000 of its Variable Rate Cumulative Redeemable Preference Shares, totaling \$5,000,000 which was originally issued on 10 December 2002.

16. Net Premium Income

Net premium income is comprised of:

	2019	2018
	\$	\$
Short-term insurance contracts	76,814,439	74,352,501
Long-term insurance contracts with fixed and guaranteed terms	24,445,935	24,245,185
Long-term insurance contracts without fixed and guaranteed terms	6,628,322	6,299,166
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	2,880,959	2,734,916
Premium revenue arising from insurance contracts issued	110,769,655	107,631,768
Premiums ceded for short-term and long-term contracts to reinsurers	(10,342,701)	(9,101,574)
	<u>100,426,954</u>	<u>98,530,194</u>

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(Continued)

17. Policyholders' Benefits

Policyholders' benefits for the year ended 31 December 2019 by insurance contracts were as follows:

	2019		2018	
	Gross	Reinsurance	Gross	Reinsurance
	\$	\$	\$	\$
Short-term insurance contracts	60,439,830	(8,084,684)	59,577,174	(6,687,340)
Long-term insurance contracts with fixed and guaranteed terms	8,949,325	(1,712,006)	8,529,399	(2,150,545)
Long-term insurance contracts without fixed and guaranteed terms	14,330,999	-	13,576,039	-
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	2,580,815	-	3,299,439	-
	86,300,969	(9,796,690)	84,982,051	(8,837,885)
				76,144,166

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(Expressed in Bahamian dollars)
(Continued)

18. Leases

Amounts recognised in the statement of financial position:

	2019	1 January 2019
	\$	\$
Right-of-use assets		
Land & buildings	<u>548,691</u>	<u>297,108</u>
Lease liabilities		
Current	34,753	18,766
Non-current	<u>513,939</u>	<u>278,342</u>
	<u>548,691</u>	<u>297,108</u>

Additions to the right-of-use assets during 2019 were \$267,703.

Amounts recognised in the statement of comprehensive income:

	2019	1 January 2019
	\$	\$
Depreciation charge on right-of-use assets		
Buildings	<u>16,120</u>	<u>12,242</u>
Interest expense on lease liabilities		
Buildings	<u>31,708</u>	<u>19,586</u>

The Group leases certain office premises under non-cancellable operating leases. Lease terms are negotiated on an individual basis and range from 12 months to 20 years. In prior periods, the Group's leases were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date on which the leased asset was available for use by the group. Right-of-use assets and lease liabilities that arise from leases are initially measured at present value. Lease liabilities include the net present value of fixed payments, the exercise price of a purchase option if the group is reasonable certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

FamGuard Corporation Limited

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31 December 2019

(Expressed in Bahamian dollars)

(Continued)

18. Leases (Continued)

Lease payments are discounted using the incremental borrowing rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the group uses recent third party financing received as a starting point and adjust the rate to reflect changes in financing conditions.

The Group is exposed to potential increases in future lease payments, which are not included in the lease liability. When adjustment to lease payments take effect, the lease liability is reassessed and adjusted against the right-of-use assets.

The Group leases certain office premises under non-cancellable operating leases. From 1 January 2019 the Group has recognised right-of-use assets for these leases except for short-term leases, refer to Note 2 and above for further information. Future minimum rental commitments as at 31 December 2019 are as follows:

	2019	2018
	\$	\$
Up to 1 year	-	66,615
1 year to 5 years	-	266,461
	<u>-</u>	<u>333,076</u>

19. Taxation

There are no corporate, income or capital gains taxes levied in The Bahamas and the Group, therefore, pays no taxes on its net income. However, taxes based on gross premium income, levied at 3%, for the year ended 31 December 2019 amounted to \$3,323,178 (2018: \$3,229,082) and is included within operating expenses in the consolidated statement of comprehensive income.

The Group is also subject to Value Added Tax (“VAT”) on taxable supplies at a standard rate of 7.5% up to 30 June 2018 and at 12% commencing 1 July 2018. The Group 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 Group in excess of the input tax deductions is included in operating expenses in the consolidated statement of comprehensive income.

20. Pension Plan

The Group’s pension costs, net of forfeitures in respect to the Plan for the year ended 31 December 2019, amounted to \$860,589 (2018: \$745,535) and are included in operating expenses in the consolidated statement of comprehensive income.

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(Expressed in Bahamian dollars)
(Continued)

21. Other Operating Income

The Group derives revenue from contracts with customers for the transfer of services over time and at a point in time. Until 31 May 2019, the Group provided investment management services to individual and group clients. Fees for services were calculated based on a percentage of the value of assets managed and billed to the group customers quarterly. Revenue from investment management services was recognised over time as the services were provided to clients. Transaction based fees for redemptions were charged to the individual customer's account when the transaction took place. In addition, the Group charged a non-refundable upfront fee when opening a group pension account. Revenue was recognised for both fees at a point in time.

Commissions are earned by the Group on non-life and medical insurance policies and are recognised when the policies are written, as the Group has no further significant performance obligations associated with the policies. Commissions are calculated as a percentage of the insurance premiums for which the policy was sold and are recognised at a point in time.

Set out below is the disaggregation of the Group's revenue from contracts by major product line. This presentation is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 *Operating Segments*.

	Other 2019			
	Investment Management Services	Pension Administration	Insurance Broker Services	Total Other
	\$	\$	\$	\$
Revenue from External Customers	66,890	27,702	917,436	1,012,028
Timing of revenue recognition				
Services transferred at a point in time	22,106	6,298	917,436	945,840
Services transferred over time	44,784	21,404	-	66,188
Total revenue from contracts with customers	66,890	27,702	917,436	1,012,028

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

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(Expressed in Bahamian dollars)

(Continued)

21. Other Operating Income (Continued)

	Other 2018			Total Other \$
	Investment Management Services \$	Pension Administration \$	Insurance Broker Services \$	
Revenue from External Customers	138,204	64,024	937,360	1,139,588
Timing of revenue recognition				
Services transferred at a point in time	45,342	20,261	937,360	1,002,963
Services transferred over time	92,862	43,763	-	136,625
Total revenue from contracts with customers	138,204	64,024	937,360	1,139,588

22. Operating Expenses

Operating expenses is comprised of:

	2019 \$	2018 \$
Employee salaries & benefits	11,976,044	12,336,656
Premium Tax & Statutory expenses	3,854,088	3,645,501
Premises & Maintenance	1,474,748	2,224,358
Professional fees	3,456,464	1,182,601
Marketing & Public Relations	1,689,764	1,351,148
Other Expenses	1,570,830	949,010
Balance at end of year	24,021,938	21,689,274

23. Commitments and Contingent Liabilities

Outstanding commitments to extend credit under mortgage loan agreements amounted to \$3,669,745 as at 31 December 2019 (2018: \$4,544,291).

The Group 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 Group's financial position.

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(Expressed in Bahamian dollars)

(Continued)

23. Commitments and Contingent Liabilities (Continued)

The Group is contingently liable for \$5,000 (2018: \$5,000) in respect of customs bonds and customs guarantees.

24. Related Party Balances and Transactions

Related parties of the Group are those defined in Note 3(ab).

Balances and transactions not disclosed elsewhere in these consolidated financial statements are disclosed below:

	2019	2018
	\$	\$
<i>Other related party balances:</i>		
Receivables and other assets	<u>401,337</u>	<u>373,101</u>
Reinsurance assets	<u>190,657</u>	<u>365,656</u>
Payables and accruals	<u>289,139</u>	<u>405,579</u>
<i>Other related party transactions:</i>		
Premiums ceded to reinsurer	<u>3,662,472</u>	<u>3,469,675</u>
Reinsurance recoveries	<u>273,815</u>	<u>571,541</u>
Administration fees	<u>-</u>	<u>40,509</u>
Management fees	<u>132,000</u>	<u>132,000</u>
<i>Compensation of key management personnel:</i>		
	2019	2018
	\$	\$
Salaries and other short-term employee benefits	2,364,416	3,071,535
Commissions	<u>273,333</u>	<u>452,057</u>
	<u>2,637,749</u>	<u>3,523,592</u>

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(Expressed in Bahamian dollars)

(Continued)

24. Related Party Balances and Transactions (Continued)

Directors' remuneration:

In 2019, the total remuneration of the directors was \$498,500 (2018: \$400,390).

Employees' incentive plan:

The Group sponsors a plan as an on-going incentive system for its key employees. The plan holds 20,400 shares (2018: 16,950 shares) of the Group 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 Group 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 10 years.

25. Post-Retirement Medical Benefit

The Group 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 Group are eligible for subsidised post-retirement medical benefits. The Group's contributions will be provided as premium payments are due, for retired participants. Retirees are assumed to pay the full retiree costs, less the Group's subsidy. The employer contribution subsidy for medical costs is set to a fixed dollar amount.

The most recent actuarial valuation was carried out by an 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.

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(Expressed in Bahamian dollars)
(Continued)

25. Post-Retirement Medical Benefit (Continued)

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

	Other post employment benefits	
	2019	2018
	\$	\$
Components of benefit cost recognised in statement of comprehensive income:		
Current service cost	139,419	147,162
Interest cost	79,962	79,268
Actuarial loss	-	-
Past service cost recognised	-	-
Net benefit cost recognised in statement of comprehensive income	219,381	226,430
	2019	2018
	\$	\$
Components of benefit cost recognised in statement of comprehensive income:		
Remeasurement on the defined benefit liability:		
Actuarial (gain)/loss due to experience	3,535	(129,522)
Actuarial loss due to liability assumption changes	-	41,057
Actuarial loss due to financial assumption changes	-	-
Actuarial gain on DBO	3,535	(88,465)

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(Continued)

25. Post-Retirement Medical Benefit (Continued)

	2019	2018
	\$	\$
Total benefit cost recognised in statement of comprehensive income:		
Cost recognised in net income	219,381	226,430
Remeasurement effects recognised in other comprehensive income	<u>3,535</u>	<u>(88,465)</u>
Total benefit cost recognised in statement of comprehensive income	<u>222,916</u>	<u>137,965</u>

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 Group's post-retirement medical benefit plan.

Funded Status

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

	Other post employment benefits	
	2019	2018
	\$	\$
Funded status, end of year		
Benefit obligation, funded plans	(1,803,331)	(1,689,922)
Unrecognised net actuarial loss	<u>-</u>	<u>-</u>
Net amount recognised, end of year	<u>(1,803,331)</u>	<u>(1,689,922)</u>

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(Continued)

25. Post-Retirement Medical Benefit (Continued)

Amounts recognised in the consolidated statement of financial position of:

	2019	2018
	\$	\$
Liabilities	<u>(1,803,331)</u>	<u>(1,689,922)</u>

	<u>Other post employment benefits</u>	
	2019	2018
	\$	\$
Experience adjustments		
DBO, end of year	<u>(1,803,331)</u>	<u>(1,689,922)</u>
Funded status	<u><u>(1,803,331)</u></u>	<u><u>(1,689,922)</u></u>

	<u>Other post employment benefits</u>	
	2019	2018
	\$	\$
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contribution	109,507	105,675
Benefit payments	<u>(109,507)</u>	<u>(105,675)</u>
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>

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(Continued)

25. Post-Retirement Medical Benefit (Continued)

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

	2019	2018
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 Group expects to contribute \$109,711 (2018: \$105,972) to the post-retirement benefits plan in 2020. This benefit is expected to be paid from corporate assets.

26. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares issued and outstanding at the consolidated statement of financial position date.

Earnings per ordinary share are comprised of the following:

	2019	2018
	\$	\$
Weighted average number of ordinary shares outstanding	10,000,000	10,000,000
Profit attributable to ordinary shareholders		
From continuing operations	4,765,221	6,353,544
From discontinued operations	2,368,229	10,928
	<u>7,133,450</u>	<u>6,364,473</u>
Basic and diluted earnings per ordinary share		
From continuing operations	0.48	0.63
From discontinued operations	0.23	0.01
Basic and diluted earnings per ordinary share	<u>0.71</u>	<u>0.64</u>

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(Continued)

27. Business Segments

The Group is organised into three main business segments; life insurance, health insurance and other. All other segments are deemed insignificant to the Group's operations.

The Group identifies its reportable operating segments by product line consistent with the reports used by Management. These segments and their respective products are as follows:

- *Life Insurance* - offers a range of ordinary life insurance and industrial life insurance.
- *Health Insurance* - offers a range of group medical, individual medical, sick and accident, and hospitalisation insurance.
- *Other* - offers a range of services including investment management, pension management and administration, corporate advisory services, and mutual fund management, (refer to Discontinued Operations Note 31).

Transactions between segments are carried out at arm's length. No inter-segment transactions occurred in 2019 and 2018. The revenue from external parties reported to Management is measured in a manner consistent with that in the consolidated statement of comprehensive income. The amounts provided to Management with respect to total assets and liabilities are measured in a manner consistent with that in the consolidated statement of financial position. All activities of the Group are deemed to be operating within the same geographical area.

Segment net income represents the net income earned by each segment after allocation of central administration costs and salaries, investment income, and other gains and losses. This is the measure reported to Management for the purpose of assessment of segment performance. No single customer contributed 10% or more to the Group's revenue for both 2019 and 2018. All assets are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

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(Continued)

27. Business Segments (Continued)

The segment results for the period ended 31 December rounded to the nearest thousand are as follows:

	2019			TOTAL
	(\$000)			
	LIFE	HEALTH	OTHER	
	\$	\$	\$	\$
Income				
Net premium income	32,885	67,542	-	100,427
Annuity & other deposits	13,365	-	-	13,365
Investment income	14,062	564	43	14,669
Other income	754	136	578	1,468
Total income	61,066	68,242	621	129,929
Policyholder benefits	31,426	53,388	-	84,814
Expenses	21,639	15,436	2,988	40,063
Total expenses	53,065	68,824	2,988	124,877
Net income/(loss) from continuing operations	8,001	(582)	(2,367)	5,052
Net income from discontinued operations	-	-	2,992	2,992
Net income/(loss)	8,001	(582)	625	8,044
TOTAL ASSETS	319,895	17,871	4,640	342,406
TOTAL LIABILITIES	240,528	13,438	1,103	255,069

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

27. Business Segments (Continued)

	2018			
	(\$000)			
	<u>LIFE</u>	<u>HEALTH</u>	<u>OTHER</u>	<u>TOTAL</u>
	\$	\$	\$	\$
INCOME				
Net premium income	32,714	65,816	-	98,530
Annuity deposits	16,006	-	-	16,006
Investment income	12,958	367	64	13,389
Other income	547	171	797	1,515
Total income	62,225	66,354	861	129,440
Policyholder benefits	30,448	53,084	-	83,532
Expenses	21,177	15,164	2,750	39,091
Total expenses	51,625	68,248	2,750	122,623
Net income/(loss) from continuing operations	10,600	(1,894)	(1,889)	6,817
Net income from discontinued operations	-	-	1,233	1,233
Net income/(loss)	10,600	(1,894)	(656)	8,050
TOTAL ASSETS	<u>199,585</u>	<u>115,367</u>	<u>54,423</u>	<u>369,375</u>
TOTAL LIABILITIES	<u>152,645</u>	<u>88,234</u>	<u>5,151</u>	<u>246,030</u>

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(Continued)

28. Dividends

Dividends to the Company's ordinary shareholders are recognised as a liability in the period in which they are declared by the Board of Directors. Dividends paid to ordinary shareholders of the Company totaled \$3,200,000 (2018: \$3,000,000) and represented \$0.32 per share (2018: \$0.30).

29. Non-Controlling Interests

Non-controlling interests are comprised of 400,000,000 non-voting, redeemable participating shares (the "Shares") of a par value of B\$0.001 each. Of these shares, 100,000,000 are linked exclusively to a Segregated Account designated as Class A, 100,000,000 are linked exclusively to a Segregated Account designated as Class B, 100,000,000 are linked exclusively to a Segregated Account designated as Class C, and 100,000,000 are linked exclusively to a Segregated Account designated as class D.

The movement is as follows:

	2019	2018
	\$	\$
Balance at beginning of year	40,401,208	38,581,058
Share of profit for the year	623,719	1,222,341
Additional non-controlling interests arising from net contributions from investors	-	597,809
Net equity impact of disposal of discontinued operations	<u>(41,024,927)</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>40,401,208</u>

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

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(Continued)

30. Subsidiaries

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of Entity	Principal Activity	Place of Incorporation	Ownership Interest	
			2019	2018
Family Guardian Insurance Company Limited	Life & Health Insurance	The Bahamas	100%	100%
FG Financial Limited	Administration of Pension and Mutual Funds	The Bahamas	100%	100%
FG Capital Markets Limited	Investment Brokerage & Advisory	The Bahamas	100%	100%
FG Insurance Agents & Brokers Limited	General Insurance Agency	The Bahamas	100%	100%
BahamaHealth Insurance Brokers Limited	Health Insurance Administration	The Bahamas	100%	100%
FG Financial Fund Limited SAC:				
FG Financial Growth Fund	Mutual Fund	The Bahamas	-	23%
FG Financial Preferred Income Fund	Mutual Fund	The Bahamas	-	16%
FG Financial Diversified Fund	Mutual Fund	The Bahamas	-	13%
FG Financial Global USD Bond Fund	Mutual Fund	The Bahamas	-	97%

See Note 31, for details surrounding the sale of the Group's investment in FG Financial Fund Limited SAC.

31. Discontinued Operations

On 8 February 2019, the Board of Directors of the Group authorised a single coordinated plan for management to sell: the Securities Business of FG Capital Markets Limited; the Investment Fund Business of FG Financial Limited SAC and the Pension Services Business of FG Financial which collectively, represented a separate major line of business of the Group. On 1 April 2019, FG Financial Limited, FG Financial Limited SAC and FG Capital Markets Limited entered into a Portfolio Acquisition Agreement with a third party to sell the portfolio of businesses for a total consideration of \$1.95 million. The transaction was completed on 31 May 2019.

In preparing the 31 December 2019 consolidated financial statements of the Group, management determined that the aforementioned transaction met the definition of a Discontinued Operation and as such applied the Presentation requirements of IFRS 5 *Non-current assets held for Sale and Discontinued Operations* (IFRS 5).

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

31. Discontinued Operations (Continued)

The financial performance and cash flow information presented are for the 5 months ended 31 May 2019 and the year ended 31 December 2018.

	2019	2018
	\$	\$
Revenue	1,111,155	2,439,785
Unrealised gain on financial assets	587,967	-
Expenses	(657,174)	(1,206,517)
Gain on sale of discontinued operations	<u>1,950,000</u>	<u>-</u>
Income from discontinued operations	<u>2,991,948</u>	<u>1,233,268</u>

The carrying amount of the assets and liabilities of the discontinued operations are indicated in the table below:

	Investment Fund Business	Brokerage and Pension Business	2019
	\$	\$	\$
Cash	2,712,124	3,592,520	6,304,644
Financial investment assets	58,385,940	-	58,385,940
Receivables and other assets	<u>1,075,376</u>	<u>-</u>	<u>1,075,376</u>
Total Assets	62,173,440	3,592,520	65,765,960
Payables & accruals	<u>1,503,214</u>	<u>3,592,520</u>	<u>5,095,734</u>
Total Liabilities	<u>1,503,214</u>	<u>3,592,520</u>	<u>5,095,734</u>
Net Assets	<u>60,670,226</u>	<u>-</u>	<u>60,670,226</u>

As part of the disposal of the Investment Fund Business, the Group transferred the management shares of FG Financial Fund Limited SAC which represented 100% of the voting shares of the Funds to the acquirer and the members of the board of directors were replaced. Thereafter, the Group no longer had the power to direct the relevant activities of the Fund under the requirements of IFRS 10. As of this date, the Fund was deconsolidated. The Group, through one of its subsidiaries continued to retain a direct interest in the Fund which is classified as financial assets through profit or loss in the consolidated statement of financial position.

At the completion date, in addition to the management shares, the Group transferred selected liabilities and corresponding assets of equal value to the acquirer, effectively resulting in \$Nil net assets being sold as part of the transaction. Thereafter, the Group surrendered all licences related to the affected businesses.

FamGuard Corporation Limited

Notes to the Consolidated Financial Statements

31 December 2019

(Expressed in Bahamian dollars)

(Continued)

31. Discontinued Operations (Continued)

The resulting gain or loss on the transaction is presented below:

	2019	2018
	\$	\$
Consideration received	1,950,000	-
Carrying amount of net assets sold	<u>-</u>	<u>-</u>
Gain on sale of discontinued operations	<u>1,950,000</u>	<u>-</u>

The gain/loss on the deconsolidation of the investment fund business is noted below:

	2019
	\$
Fair value of interest retained	19,092,098
Less:	
Net assets deconsolidated	60,670,226
Non-controlling interest	<u>(41,578,128)</u>
Carrying amount of retained interest	<u>19,092,098</u>
Gain/loss on deconsolidation of subsidiary	<u><u>-</u></u>

The net cash flows from the discontinued operations is presented below:

	2019	2018
	\$	\$
Net cash used in operating activities	(6,106,033)	(1,398,770)
Net cash from investing activities	899,592	911,860
Net cash from financing activities	<u>309,001</u>	<u>597,809</u>
Net cash (used by)/from the discontinued operation	<u>(4,897,440)</u>	<u>110,899</u>

FamGuard Corporation Limited

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31 December 2019

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(Continued)

32. Subsequent Events

Dividends

On 12 February 2020, the Board of Directors declared a fourth quarter dividend of \$0.08 per share or \$800,000 to shareholders of record as at 24 February 2020 and paid 2 March 2020.

COVID-19

In March 2020 the World Health Organization declared the novel coronavirus, known as COVID-19 outbreak as a pandemic. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the Group expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

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