FAMILY GUARDIAN INSURANCE COMPANY LIMITED

Financial Statements
31 December 2019

FAMILY GUARDIAN INSURANCE COMPANY LIMITED

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ECKLER

APPOINTED ACTUARY'S REPORT

To the Board of Directors of Family Guardian Insurance Company Limited

I have valued the actuarial liabilities and other policy liabilities of Family Guardian Insurance Company Limited for its statement of financial position at 31 December 2019 and the change in the 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 Family Guardian Insurance Company Limited fairly represent the results of the valuation.

Jean Mongrain

Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries
Member, Caribbean Actuarial Association

February 12th, 2020

Independent auditors' report

To the Shareholder of Family Guardian Insurance Company Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Family Guardian Insurance Company Limited (the Company) as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

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

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

Independence

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

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

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

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

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

Auditors’ responsibilities for the audit of the financial statements

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

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

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

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

Other Matter

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

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

28 April 2020

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

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

	2019 $	2018 $
ASSETS		
Cash and bank balances	17,440,620	3,636,178
Receivables and other assets, net (Notes 7 and 22)	18,515,000	19,504,021
Financial investment assets (Note 6)		
Fair value through profit or loss	19,900,129	18,626,391
Available-for-sale	11,467,971	11,638,032
Held-to-maturity	142,600,037	143,960,140
Loans	86,412,527	92,844,096
	260,380,664	267,068,659
Reinsurance assets (Note 9)	3,536,748	5,172,056
Property and equipment, net (Note 8)	36,004,876	25,146,639
Right-of-use assets (Note 17)	548,691	-
Total assets	**336,426,599**	**320,527,553**
LIABILITIES		
Policy liabilities		
Reserves for future policyholders' benefits (Note 9)	219,975,025	213,300,445
Other policyholders' funds (Note 10)	20,426,182	19,027,437
	240,401,207	232,327,882
Payables and accruals (Note 11, 22 and 23)	14,936,055	12,542,173
Lease liabilities (Note 17)	548,691	-
Total liabilities	**255,885,953**	**244,870,055**
EQUITY		
Ordinary shares (Note 14)	1,707,462	1,707,462
Share premium (Note 14)	11,401,314	11,401,314
Revaluation reserve (Note 13)	7,172,653	6,707,826
Retained earnings	60,259,217	55,840,896
Total equity	**80,540,646**	**75,657,498**
Total liabilities and equity	**336,426,599**	**320,527,553**

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

Director

Director

Family Guardian Insurance Company Limited

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

	2019 $	2018 $
INCOME		
Gross premium income (Note 15)	110,769,655	107,631,768
Premium ceded to reinsurers (Note 15 and 22)	(10,342,701)	(9,101,574)
Net premium income (Note 15)	100,426,954	98,530,194
Annuity and sundry deposits	13,365,355	16,006,069
Net premium income and deposits	**113,792,309**	**114,536,263**
Interest income	13,491,966	12,674,587
Dividend income	831,728	967,132
Net realised gain on sale of financial assets	223,465	53,970
Net unrealised gain on financial assets (Note 6)	1,130,747	306,771
Other operating income	890,796	856,693
Total income	**130,361,011**	**129,395,416**
BENEFITS AND EXPENSES		
Benefits		
Policyholders' benefits (Note16)	86,300,969	84,982,050
Reinsurance recoveries (Note 16 and 22)	(9,796,690)	(8,837,884)
Net policyholders' benefits	76,504,279	76,144,166
Increase in for future policyholders' benefits (Note 9)	8,309,889	7,387,828
Total benefits	**84,814,168**	**83,531,994**
Expenses		
Operating expenses (Notes 19, 20 and 22)	22,081,884	20,120,806
Commissions (Note 22)	13,621,357	15,000,830
Depreciation (Note 8, 17)	1,292,615	1,311,143
Bad debt expense, net (Notes 6 and 7)	609,923	624,705
Interest expense (Note 17)	31,708	-
Total expenses	37,637,487	37,057,484
Total benefits and expenses	122,451,655	120,589,478
NET INCOME	**7,909,356**	**8,805,938**

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

Family Guardian Insurance Company Limited

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

	2019 $	2018 $
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to net income:		
Net change in fair value on available-for-sale financial assets (Note 13)	688,292	(585,222)
Realised gain reclassified to net income (Note 13)	(223,465)	(1,230)
Items that will not be reclassified subsequently to net income:		
Remeasurement of defined benefit obligation (Note 23)	(3,535)	(88,465)
Total other comprehensive income	461,292	(497,987)
Total comprehensive income	**8,370,648**	**8,307,951**

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

Family Guardian Insurance Company Limited

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

	Notes	Ordinary Shares (Note 14)	Share Premium (Note 14)	Revaluation Reserve (Note 13)	Retained Earnings	Total
		$	$	$	$	$
Balance as at 31 December 2017		**1,707,462**	**11,401,314**	**7,294,278**	**50,377,743**	**70,780,797**
Comprehensive income						
Net income		-	-	-	8,805,938	8,805,938
Other comprehensive income	13, 23	-	-	(586,452)	88,465	(497,987)
Total comprehensive income		-	-	(586,452)	8,894,403	8,307,951
Transaction with owners						
Dividends declared and paid - ordinary shares ($2.01 per share)		-	-	-	(3,431,250)	(3,431,250)
Total transaction with owners		-	-	-	(3,431,250)	(3,431,250)
Balance as at 31 December 2018		**1,707,462**	**11,401,314**	**6,707,826**	**55,840,896**	**75,657,498**
Comprehensive income						
Net income		-	-	-	7,909,356	7,909,356
Other comprehensive income		-	-	464,827	(3,535)	461,292
Total comprehensive income		-	-	464,827	7,905,821	8,370,648
Transaction with owners						
Dividends declared and paid - ordinary shares ($2.04 per share)		-	-	-	(3,487,500)	(3,487,500)
Total transaction with owners		-	-	-	(3,487,500)	(3,487,500)
Balance as at 31 December 2019		**1,707,462**	**11,401,314**	**7,172,653**	**60,259,217**	**80,540,646**

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

Family Guardian Insurance Company Limited

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

	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	7,909,356	8,805,938
Adjustments for:		
Depreciation expense (Note 8)	1,292,615	1,311,143
Unrealised gain on investment assets (Note 6)	(1,130,747)	(306,771)
Realised gain on sale of investment assets (Note 6)	(223,465)	(53,970)
Decrease in reinsurance assets	1,635,308	1,348,892
Increase/(decrease) in provisions (Note 6, 7)	472,308	(3,785)
Change in reserve for policyholders' benefits	6,674,580	6,038,936
Interest income	(13,491,966)	(12,674,587)
Dividend income	(831,728)	(967,132)
Dividend income	31,708	-
Operating income before working capital changes	2,337,969	3,498,664
Decrease/(increase) in receivables and other assets	312,838	(785,842)
Decrease in payables and accruals	(617,330)	(3,807,463)
Increase in other policyholders' funds	1,398,745	954,956
Net cash from/(used in) operating activities	**3,432,222**	**(139,685)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of bank term deposits greater than three months	-	3,000,000
Purchase of corporate bonds (Note 6)	(500,000)	(4,000,000)
Redemption of corporate bonds (Note 6)	881,351	883,351
Redemption of preference shares (Note 6)	223,188	223,188
Purchase of government bonds & notes (Note 6)	(8,953,800)	(8,318,500)
Maturity of government bonds & notes (Note 6)	10,266,500	1,833,381
Purchase of available for sale securities (Note 6)	-	(80,360)
Proceeds on sale of available for sale securities	841,000	770,511
Subscription of shares in mutual funds (Note 6)	-	-
Pension forfeitures reinvested (Note 6)	(142,991)	(139,902)
Net loans issued	(863,212)	(9,071,762)
Purchase of property and equipment (Note 8)	(2,128,920)	(2,344,241)
Proceeds from disposal of property, plant, and equipment (Note 8)	51,771	-
Interest Received	13,400,933	12,919,632
Dividends received	831,728	967,132
Net cash from/(used in) investing activities	**13,907,548**	**(3,357,570)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Lease repayments (Note 17)	(16,120)	-
Interest paid (Note 17)	(31,708)	-
Dividends paid on ordinary shares	(3,487,500)	(3,431,250)
Net cash used in financing activities	**(3,535,328)**	**(3,431,250)**
Net increase/(decrease) in cash and cash equivalents	13,804,442	(6,928,505)
Cash and cash equivalents, beginning of year	3,636,178	10,564,683
Cash and cash equivalents, end of year	**17,440,620**	**3,636,178**

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

Family Guardian Insurance Company Limited

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

1. General Information

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

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

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

New standards, amendments and interpretations adopted by the Company

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

IFRS 16 Leases

In the current year, the Company 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(s). The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The Company has adopted IFRS 16 Leases 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 Company has used the following practical expedients permitted by the standard:

Family Guardian Insurance Company Limited

Notes to the 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 Company (continued)

New Standards - IFRS 16 Leases (continued)

- 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
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(a) Impact of the new definition of a lease

The Company 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, *Insurance Contracts* (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 Company 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 Company 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 Company.

(b) Impact on Lessee Accounting

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

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

(a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

Family Guardian Insurance Company Limited

Notes to the 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 Company (continued)

New Standards - Leases IFRS 16 (continued)

(b) Impact on Lessee Accounting (Continued)

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

(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%.

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 Company 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 profit or loss.

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

	1 Jan 2019 $
Measurement of lease liabilities:	
Operating lease commitments disclosed as at 31 December 2018	3,110,956
(Less): short term leases not recognised as a liability	(2,813,848)
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

The Company did not enter into any lessor arrangements in 2019.

Family Guardian Insurance Company Limited

Notes to the 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 Company (continued)

Leases IFRS 16 (continued)

(b) Impact on Lessee Accounting (Continued)

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 statement of financial position as at 31 December 2018.

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

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 statement of financial position on 1 January 2019

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

- Right of use asset – increased by $297,108
- Lease liability – increased by $297,108

The net impact on retained earnings on I January 2019 was $NIL.

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

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

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 Company's accounting policies or financial statements in the financial period of initial application.

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

Family Guardian Insurance Company Limited

Notes to the 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)

IFRS 9

IFRS 9 *Financial Instruments* (IFRS 9), became effective for the Company's financial year beginning on 1 January 2018 but was deferred under options provided by the IASB and accordingly are not reflected in the Company's accounting policies or 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 Company's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset.

In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. 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 Company 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 below.

IFRS 17

In May 2017, the IASB issued 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.

Family Guardian Insurance Company Limited

Notes to the 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 not yet adopted by the Company (continued)

IFRS 17 (continued)

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 Company has taken advantage of this temporary exemption and will apply IFRS 9 for the period beginning 1 January 2023.

3. Significant Accounting Policies

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

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed separately in Note 4 to the financial statements.

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

Family Guardian Insurance Company Limited

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

3. Significant Accounting Policies (Continued)

(b) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statement of comprehensive income. Translation differences on monetary financial assets measured at fair value through profit or loss are included as part of the fair value gains and losses.

(c) Cash and cash equivalents

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

(d) Receivables and other assets

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

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

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

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

Family Guardian Insurance Company Limited

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

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets

Classification

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

A financial asset is classified as held for trading if:

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

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

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

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

Family Guardian Insurance Company Limited

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(Continued)

3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Classification (continued)

ii) Held-to-maturity

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

iii) Loans and receivables

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

iv) Available-for-sale

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

Family Guardian Insurance Company Limited

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3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Classification (continued)

Recognition and derecognition

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

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

Measurement

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

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

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

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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3. Significant Accounting Policies (Continued)

(e) Investments and other financial assets (continued)

Measurement (continued)

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

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

Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or Company of financial assets is impaired. A financial asset or a Company 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 Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in net income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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).

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3. Significant Accounting Policies (Continued)

(f) Loans

Policy loans

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

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

Mortgages

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

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

Significant financial difficulties of the borrower, probability that the borrower will enter financial reorganisation, and default or delinquency in payments are considered indicators that the mortgage loan is impaired.

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

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3. Significant Accounting Policies (Continued)

(g) Property and equipment

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

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

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

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

Freehold buildings	2.5% per annum
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 statement of comprehensive income. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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3. Significant Accounting Policies (Continued)

(h) Impairment of non-financial assets

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

(i) Financial liabilities

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

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

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

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Company has designated insurance contracts without DPF as financial liabilities at FVTPL upon initial recognition. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest. The effective interest amortisation is included in finance cost in the statement of comprehensive income.

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(Continued)

3. Significant Accounting Policies (Continued)

(j) Other provisions

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

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

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

(k) Employee benefits

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

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

Defined benefit costs are categorised as follows:

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(Continued)

3. Significant Accounting Policies (Continued)

(k) Employee benefits (continued)

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

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

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

(l) Share capital

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

(m) Product classification

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

(n) Reserves for insurance contracts

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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3. Significant Accounting Policies (Continued)

(n) Reserves for insurance contracts (continued)

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

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

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

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

(o) Insurance contracts

i) Classification

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

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

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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3. Significant Accounting Policies (Continued)

(o) Insurance contracts (continued)

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

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

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

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

Long-term insurance contracts with fixed and guaranteed terms

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

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(Continued)

3. Significant Accounting Policies (Continued)

(o) Insurance contracts (continued)

ii) Recognition and measurement (continued)

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

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

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

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

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

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

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

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

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

Family Guardian Insurance Company Limited

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3. Significant Accounting Policies (Continued)

(p) Reinsurance transactions

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

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

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

(q) Non-premium revenue recognition

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

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

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

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

(r) Commission expense

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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3. Significant Accounting Policies (Continued)

(s) Leases

The Company 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.

Company as a lessee

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

<u>Right-of-use assets</u>

The Company 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 Company 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.

<u>Lease liabilities</u>

At the commencement date of the lease, the Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company 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 Company 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 Company determines the rate.

3. Significant Accounting Policies (Continued)

(s) Leases (continued)

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 Company's lease liabilities are presented on the statement of financial position (see Note 17).

Short-term leases

The Company applies the short-term lease recognition exemption to its short-term leases of office space (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.

(t) Policy dividends on deposits

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

(u) Taxation

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

(v) Dividend distribution

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

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3. Significant Accounting Policies (Continued)

(w) Related parties

Related parties are defined as follows:

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

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Company's accounting policies

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

a. Classification of insurance contracts

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

Key sources of estimation uncertainty-critical accounting estimates

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

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

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

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

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

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

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

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

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

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

Family Guardian Insurance Company Limited

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31 December 2019
(Expressed in Bahamian dollars)
(Continued)

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

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

c. *Impairment of non-financial assets*

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

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

d. *Revaluation of property and equipment*

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

e. *Loan loss provision*

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

Family Guardian Insurance Company Limited

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

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

f. Impairment of financial assets

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

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

g. Retirement benefit obligation

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

Other key assumptions for retirement benefit obligations include medical, dental and vision cost trend rates and mortality rates. Medical rates are determined by the current year's average per capita costs for all participants. 2019 average per capita costs for retirees was estimated by age groupings.

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
31 December 2019
(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 Company based on historical experience and other factors that are considered to be relevant. Where no market data is available, the Company may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily recent similar arm's length market transactions if available, and reference to the current fair value of another instrument that is substantially the same.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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 Company 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 Company 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 Company '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 Company 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).

Family Guardian Insurance Company Limited

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(Expressed in Bahamian dollars)
(Continued)

5. Management of Insurance and Financial Risk

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

a. Fair value of financial assets and liabilities

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

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

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

	2019					
	FVTPL	**Loans and Receivables**	**Held-To-Maturity**	**Available-For-Sale**	**All Other Financial Liabilities**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
FINANCIAL ASSETS						
Cash on hand and at banks	-	17,440,620	-	-	-	17,440,620
Financial investment assets	19,900,129	86,412,527	142,600,037	11,467,971	-	260,380,664
Reinsurance assets	-	3,536,748	-	-	-	3,536,748
Receivables and other assets	-	18,086,388	-	-	-	18,086,388
Total financial assets	**19,900,129**	**125,476,283**	**142,600,037**	**11,467,971**	**-**	**299,444,420**
FINANCIAL LIABILITIES						
Other policyholders' funds	-	-	-	-	20,426,182	20,426,182
Payables and accruals	-	-	-	-	14,936,055	14,936,055
Lease liability	-	-	-	-	548,691	548,691
Total financial liabilities	**-**	**-**	**-**	**-**	**35,910,928**	**35,910,928**

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

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

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

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

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

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

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(Continued)

5. Management of Insurance and Financial Risk (Continued)

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

	2019			
Financial Assets	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
FVTPL	19,900,129	-	-	19,900,129
Available-for-sale	-	11,467,971	-	11,467,971
	19,900,129	**11,467,971**	**-**	**31,368,100**

	2018			
Financial Assets				
FVTPL	18,626,391	-	-	18,626,391
Available-for-sale	-	11,638,032	-	11,638,032
	18,626,391	**11,638,032**	**-**	**30,264,423**

The Company did not have any financial instruments classified as Level 3 as at 31 December 2019 and as at 31 December 2018.

b. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

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

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

The Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Under the excess coverage contracts, the Company retains a range of $75,000 to $100,000 (2018: $75,000 to $100,000) coverage per individual life and individual accidental death benefit.

Under the quota share contracts, the Company retains 50% of the face amount per individual life and accidental death benefit up to a maximum of $100,000 on any one life insured. Individual and Company 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 Company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type and level of insured benefits.

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

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

$	**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
	1,658,113,417	**1,626,798,314**

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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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 statement of financial position as at 31 December 2019. (All amounts are in $000's).

	Year claim is incurred										
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
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	35,382	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**

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

b. Insurance risk (continued)

Short-term insurance contracts (continued)

	Year claim is incurred										
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
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**	**9**	**69**	**8,683**	**8,762**

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

c. Market risk

Cash flow and fair value interest rate risk

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

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

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

Mortgage loans and held-to-maturity financial assets are subject to floating interest rates. If future interest rates were increased or decreased by 1%, interest income in the statement of comprehensive income would increase or decrease by $2,085,832 (2018: $2,191,240).

Price risk

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

If future market prices were to increase or decrease by 10% this would result in an increase or decrease in other comprehensive income of $1,028,966 (2018: $987,137) and net income of $1,990,013 (2018: $1,862,639). Management mitigates this risk by diversification of its portfolio.

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

d. Credit risk

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

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

The Company'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 Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their publicly available financial information prior to finalisation of any contract.

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

The Company invests in debt instruments which have been issued or guaranteed by 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 Company 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 Company also has established limits on investments held with any one institution.

e. Liquidity risk

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

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

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

e. *Liquidity risk (continued)*

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

	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	**70,876,857**	**3,894,223**	**(216,772)**	**30,885,205**	**482,755,846**	**588,195,359**

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

Amounts not classified consist mainly of deferred annuity fund balances.

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

e. Liquidity risk (continued)

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

	2019					
	Not Classified	**Up to 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
ASSETS						
Cash on hand & at bank	-	17,440,620	-	-	-	17,440,620
Reinsurance assets	3,536,748	-	-	-	-	3,536,748
Receivables & other assets	10,220,818	7,865,570	-	-	-	18,086,388
Financial investment assets						
FVTPL securities	-	19,900,129	-	-	-	19,900,129
AFS Securities	-	11,467,971	-	-	-	11,467,971
HTM Securities	-	7,080,660	24,216,216	21,122,162	90,180,999	142,600,037
Loans	17,854,697	2,989,799	3,351,349	10,948,811	51,267,871	86,412,527
	31,612,263	**66,744,749**	**27,567,565**	**32,070,973**	**141,448,870**	**299,444,420**
LIABILITIES						
Other policyholders' funds	-	20,426,182	-	-	-	20,426,182
Payables and accruals	-	14,936,055	-	-	-	14,936,055
Lease liability	-	34,753	513,938	-	-	548,691
	-	**35,396,990**	**513,938**	**-**	**-**	**35,910,928**

	2018					
	Not Classified	**Up to 1 year**	**1 to 5 years**	**6 to 10 years**	**Over 10 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
ASSETS						
Cash on hand & at bank	-	3,636,178	-	-	-	3,636,178
Reinsurance assets	5,172,056	-	-	-	-	5,172,056
Receivables & other assets	7,536,726	11,582,157	-	-	-	19,118,883
Financial investment assets						
FVTPL securities	-	18,626,391	-	-	-	18,626,391
AFS Securities	-	11,638,032	-	-	-	11,638,032
Held to Maturity	-	14,103,622	34,159,250	17,106,700	78,590,568	143,960,140
Loans	14,636,642	1,295,730	4,843,782	12,350,215	59,717,727	92,844,096
	27,345,424	**60,882,110**	**39,003,032**	**29,456,915**	**138,308,295**	**294,995,776**
LIABILITIES						
Other policyholders' funds	-	19,027,437	-	-	-	19,027,437
Payables and accruals	-	12,542,173	-	-	-	12,542,173
	-	**31,569,610**	**-**	**-**	**-**	**31,569,610**

Family Guardian Insurance Company Limited

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

5. Management of Insurance and Financial Risk (Continued)

f. Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 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 Company exceeded both the statutory margin and minimum ratio requirements of qualified admissible assets.

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

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

g. Operational risk

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(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	18,626,391	18,179,718
Pension forfeitures reinvested	142,991	139,902
Purchase of equities	-	-
Net change in unrealised gain on investments at FVTPL	1,130,747	306,771
At end of year	**19,900,129**	**18,626,391**
(b) Available-for-sale (AFS):		
At beginning of year	9,871,366	10,593,642
Purchase of equities		552,935
Sale of equities	(270,000)	(689,989)
Net change in fair value on AFS	688,293	(585,222)
	10,289,659	9,871,366
Investment in redeemable preference shares	1,741,000	2,241,000
Redemption of redeemable preference shares	(571,000)	(500,000)
Add: Accrued interest receivable	8,312	25,666
	1,178,312	1,766,666
At end of year	**11,467,971**	**11,638,032**

Family Guardian Insurance Company Limited

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31 December 2019
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6. Financial Investment Assets (Continued)

	2019	2018
	$	$
(c) Held-to-maturity (HTM):		
Bahamas Government bonds	102,509,075	100,852,143
Bahamas Mortgage Corporation bonds	9,300,000	9,300,000
Education Loan Authority bonds	3,800,000	6,300,000
Clifton Heritage bonds	2,004,800	2,004,800
Bridge Authority bonds	307,400	307,400
Government bonds, at amortised cost	117,921,275	118,764,343
Add: Accrued interest receivable	1,767,131	1,683,866
	119,688,406	120,448,209
Redeemable preferred shares, at amortised cost	8,065,224	8,288,412
Add: Accrued interest receivable	36,652	38,627
	8,101,876	8,327,039
Corporate bonds, at amortised cost	14,688,913	15,070,264
Add: Accrued interest receivable	120,842	114,628
	14,809,755	15,184,892
At end of year	**142,600,037**	**143,960,140**

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

Held-to-maturity securities have interest rates ranging from 4.25 % to 10.00 % per annum (2018: 4.25 % to 8.50 %) and scheduled maturities between 2020 and 2048 (2018: 2019 and 2048).

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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6. Financial Investment Assets (Continued)

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

The carrying value of the investments in the reclassified equities is equivalent to the fair value and as at 31 December, 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.

	2019 $	2018 $
(d) Loans:		
(i) Policy loans comprise:		
Policy loans	14,613,945	13,552,372
Automatic premium loans	3,698,798	3,502,724
	18,312,743	17,055,096
Less: Specific provision for credit risk	(456,274)	(267,823)
Add: Accrued interest receivable	932,950	871,565
	18,789,419	17,658,838
(ii) Mortgage loans comprise:		
Commercial:		
Current	652,881	8,471,708
Past due but not impaired	113,099	-
Over 90 days	434,549	554,360
Residential:		
Current	55,771,939	58,317,839
Past due but not impaired	8,075,699	6,805,115
Over 90 days	3,094,200	2,851,950
	68,142,367	77,000,972
Less: Specific provision for credit risk	(2,049,215)	(1,729,834)
Deferred commitment fees	(439,267)	(420,797)
	65,653,885	74,850,341
Add: Accrued interest receivable	329,267	334,917
	65,983,152	75,185,258
(iii) Margin loans	1,639,956	-
Total loans	**86,412,527**	**92,844,096**

Family Guardian Insurance Company Limited

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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 the mortgage loan loss provisions are as follows:

	$
Balance as at 31 December 2017	1,842,757
Bad debt expense	369,832
Bad debt written off	(482,755)
Balance as at 31 December 2018	1,729,834
Bad debt expense	458,821
Recovery of bad debt	(139,440)
Balance as at 31 December 2019	**2,049,215**

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 an interest rates between 5.25% to 6.50% in the amount of $1,395,584 (2018: $7,909,234). On 1 December 2019, the Parent repaid its outstanding mortgage balance of $7,469,086 through an in-kind transfer of its principal office building and land located in eastern New Providence to the Company. The building and land, which had a fair value of $9,000,000 is included in property and equipment. The residual liability of $1,529, 893 payable to the Parent is included in Payables and accruals.

Effective 1 June, 2019 the Company purchased mortgages from FG Financial SAC totaling $892,899.

During the year, mortgages to related parties decreased by $2,656,243. Related party interest income from mortgages for the year ended 31 December 2019 is $527,005 (2018: $568,062) and related party interest receivable on mortgages as at 31 December 2019 is $2,414 (2018: $41,568).

As at 31 December 2019, the Company had non-performing mortgage loans of $3,528,749 (2018: $3,406,310) for which interest of $1,447,728 (2018: $1,390,636) had not been recognised in the 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.

During the year, the Company 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 bad debt expense in the statement of comprehensive income.

Family Guardian Insurance Company Limited

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

7. Receivables and Other Assets

Receivables and other assets comprise:

	2019	2018
	$	$
Reinsurance recoveries	9,720,818	7,536,726
Intercompany receivables	2,146,955	4,518,217
Premium receivables	3,869,407	4,849,445
Other receivables and other assets	1,855,332	2,256,143
Prepayments and deposits	928,612	385,138
	18,521,124	19,545,669
Less: allowance for doubtful accounts	(6,124)	(41,648)
	18,515,000	**19,504,021**

The movement in allowance for doubtful accounts is as follows:

	2019	2018
	$	$
Balance, beginning of year	41,648	45,092
Bad debt expense	128,612	134,784
Recovery of bad debt	(164,136)	(138,228)
Balance, end of year	**6,124**	**41,648**

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

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

Family Guardian Insurance Company Limited

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

8. Property and Equipment

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

	2019							
	Freehold Land & Improvements $	**Freehold Buildings $**	**Furniture & Equipment $**	**Motor Vehicles $**	**Computer Hardware & Software $**	**Leasehold Improvements $**	**Work in Progress $**	**Total $**
Year ended 31 December 2019								
Opening net book amount	3,441,000	13,548,285	430,496	33,881	1,097,069	-	6,595,908	25,146,639
Additions	3,784,011	5,254,332	62,752	-	1,329,069	37,631	1,696,954	12,164,749
Transfers	-	-	92,022	-	3,780,357	-	(3,902,396)	(30,017)
Disposals - cost	-	-	-	-	-	-	-	-
Depreciation charge	-	(144,368)	(204,931)	(7,744)	(919,452)	-	-	(1,276,495)
Closing net book amount	**7,225,011**	**18,658,249**	**380,339**	**26,137**	**5,287,043**	**37,631**	**4,390,466**	**36,004,876**
As at 31 December 2019								
Cost or revaluation	7,225,011	19,506,736	5,395,364	98,691	10,349,789	1,069,672	6,595,909	50,241,172
Work in progress	-	-	-	-	-	-	(2,205,443)	(2,205,443)
Accumulated depreciation	-	(848,487)	(5,015,025)	(72,554)	(5,062,746)	(1,032,041)	-	(12,030,853)
Net book amount	**7,225,011**	**18,658,249**	**380,339**	**26,137**	**5,287,043**	**37,631**	**4,390,466**	**36,004,876**

Family Guardian Insurance Company Limited

Notes to the 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							
	Freehold Land & Improvements	**Freehold Buildings**	**Furniture & Equipment**	**Motor Vehicles**	**Computer Hardware & Software**	**Leasehold Improvements**	**Work in Progress**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Year ended 31 December 2018								
Opening net book amount	3,441,000	14,132,664	618,126	19,473	1,215,252	39,496	4,647,529	24,113,540
Additions	-	78,237	50,809	20,619	246,198	-	1,948,379	2,344,242
Revaluations	-	-	-	-	-	-	-	-
Transfers	-	39,496	-	-	-	(39,496)	-	-
Disposals - cost	-	-	-	-	-	-	-	-
Depreciation charge	-	(702,112)	(238,439)	(6,211)	(364,381)	-	-	(1,311,143)
Disposals - accumulated depreciation	-	-	-	-	-	-	-	-
Closing net book amount	**3,441,000**	**13,548,285**	**430,496**	**33,881**	**1,097,069**	**-**	**6,595,908**	**25,146,639**
As at 31 December 2018								
Cost or revaluation	3,441,000	14,250,397	5,246,803	98,691	5,253,953	1,032,041	4,647,529	33,970,414
Work in progress	-	-	-	-	-	-	1,948,379	1,948,379
Accumulated depreciation	-	(702,112)	(4,816,307)	(64,810)	(4,156,884)	(1,032,041)	-	(10,772,154)
Net book amount	**3,441,000**	**13,548,285**	**430,496**	**33,881**	**1,097,069**	**-**	**6,595,908**	**25,146,639**

Family Guardian Insurance Company Limited

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8. Property and Equipment (Continued)

On 1 December 2019, the Company acquired land and building from its Parent for a total consideration of $9,000,000.

The Company's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The last revaluation of the Company's land and buildings was performed 31 December 2017 and was performed by Bahamas Realty, a qualified independent property appraiser.

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

Freehold land and buildings were revalued in 2017. Had the Company's land and buildings been measured on a historical cost basis, their carrying amount would have been $16,750,996 as at 31 December 2019.

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

		2019		
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Freehold land	-	-	3,455,300	3,455,300
Freehold buildings	-	-	13,427,960	13,427,960
	-	**-**	**16,883,260**	**16, 883,260**

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

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

Family Guardian Insurance Company Limited

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9. Reserves for Future Policyholders' Benefits

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

As at 31 December 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	90,990,730	2,436,502,634	2,356,000,000
Annuities	77,020,075	78,132,314	-	-
Home service life	35,648,902	35,364,680	566,689,304	566,901,000
Accident and health	11,639,073	8,812,721	-	-
Gross liabilities	219,975,025	213,300,445	3,003,191,938	2,922,901,000
Reinsurance assets	(3,536,748)	(5,172,056)	-	-
	216,438,277	**208,128,389**	**3,003,191,938**	**2,922,901,000**

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

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

Family Guardian Insurance Company Limited

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(Expressed in Bahamian dollars)
(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

(i) *Mortality and Morbidity*

Assumptions for Home Service life business are based on Company experience. Assumptions for other business lines are based on industry experience, as the Company does not have sufficient of its own experience. A margin is added for adverse deviation equal to 15 per 1,000 divided by the expectation of life for mortality and 8% to 10% for morbidity. If future mortality and morbidity rates were to differ by 10% from that assumed, the liability would increase by $5,571,626 (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 rate curve, whereas the Company's most adverse plausible scenario assumes a future yield curve equal to 80% of the yield curve of the Base Scenario. If future interest rates were to differ by 100 basis points from that assumed, without changing the policyholder dividend scale, the liability would increase by $20,508,979 (2018: $18,993,066) or decrease by $27,787,328 (2019: $26,953,039).

(iii) *Persistency*

Lapse rates are based on the Company's experience where credible experience is available and industry experience is used where credible Company experience is not available. A margin for adverse deviation is added by increasing or decreasing lapse rates; whichever is adverse, by 20% on Home Service business and 15% on Ordinary business. If future lapse rates were to differ by 10% from that assumed, the liability would increase by $1,698,780 (2018: $1,262,325) or decrease by $2,036,473 (2018: $1,514,486).

(iv) *Expenses*

Expenses are based on best estimates of Company experience. Expenses are increased 10% as a margin for adverse deviation. Expenses are assumed to increase annually at a rate of 2% (2018: 2%) initially, decreasing to 2% (2018: 2%) over 20 years.

Family Guardian Insurance Company Limited

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(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

(iv) *Expenses (continued)*

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

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

a. Short-term insurance contracts:

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

Family Guardian Insurance Company Limited

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

9. Reserves for Future Policyholders' Benefits (Continued)

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	8,809,207	8,717,983
Liabilities at end of year	**76,478,312**	**74,091,348**

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	(1,187,991)	(691,636)
Liabilities at end of year	**106,888,309**	**103,224,444**

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	966,833	681,165
Liabilities at end of year	**23,884,190**	**23,890,622**

Family Guardian Insurance Company Limited

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(Continued)

9. Reserves for Future Policyholders' Benefits (Continued)

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	10,853,540	9,661,019
Liabilities at end of year	**216,438,277**	**208,128,389**

10. 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
Advance premiums	1,611,741	964,820
Unapplied premiums	914,121	865,847
	20,426,182	**19,027,437**

11. Payables and Accruals

Payables and accruals are comprised of the following:

	2019	2018
	$	$
Payables and accruals	8,926,318	4,685,729
Intercompany payables	1,920,075	3,953,451
Employee liabilities	3,139,640	2,849,226
Reinsurance payable	950,022	1,053,767
	14,936,055	**12,542,173**

12. Bank Overdraft Facilities

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

Family Guardian Insurance Company Limited

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

13. Revaluation Reserve

Revaluation reserve is comprised of the following:

	Financial Investment Assets Revaluation $	Fixed Assets Revaluation $	Total Revaluation Reserve $
Balance as at 31 December 2017	**3,121,529**	**4,172,749**	**7,294,278**
Unrealised loss on AFS investments	(585,222)	-	(585,222)
Realised loss on AFS investments	(1,230)	-	(1,230)
Balance as at 31 December 2018	**2,535,077**	**4,172,749**	**6,707,826**
Unrealised loss on AFS investments	688,292	-	688,292
Realised loss on AFS investments	(223,465)	-	(223,465)
Balance as at 31 December 2019	**2,999,904**	**4,172,749**	**7,172,653**

14. Share Capital

The Company's share capital is comprised as follows:

	Ordinary Shares $1 each 2019 $	Ordinary Shares $1 each 2018 $
Authorised	**2,000,000**	**2,000,000**
Issued and fully paid	**1,707,462**	**1,707,462**

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

Family Guardian Insurance Company Limited

Notes to the Financial Statements
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(Continued)

15. Net Premium Income

Net premium income is comprised of:

	2019	2018
	$	$
Short-term insurance contracts		74,352,501
Long-term insurance contracts with fixed and	76,814,439	
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)
	100,426,954	**98,530,194**

Family Guardian Insurance Company Limited

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(Continued)

16. Policyholders' Benefits

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

	2019			**2018**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$	**$**	**$**	**$**	**$**	**$**
Short-term insurance contracts	60,439,830	(8,084,684)	52,355,146	59,577,174	(6,687,340)	52,889,834
Long-term insurance contracts with fixed and guaranteed terms	8,949,325	(1,712,006)	7,237,319	8,529,399	(2,150,544)	6,378,855
Long-term insurance contracts without fixed and guaranteed terms	14,330,999	-	14,330,999	13,576,039	-	13,576,039
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	2,580,815	-	2,580,815	3,299,438	-	3,299,438
	86,300,969	**(9,796,690)**	**76,504,279**	**84,982,050**	**(8,837,884)**	**76,144,166**

Family Guardian Insurance Company Limited

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(Continued)

17. Leases

Amounts recognised in the statement of financial position:

	2019 $	1 Jan 2019 $
Right-of-use assets:		
Land & Buildings	548,691	297,108
Lease liabilities:		
Current	34,753	18,766
Non-Current	513,938	278,342
	548,691	297,108

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

Amounts recognised in the statement of comprehensive income:

	2019 $	1 Jan 2019 $
Depreciation charge of right-of-use assets:		
Buildings	16,120	12,242
Interest expense on right-of-use assets:		
Non-Current	31,708	19,586

The Company 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 Company'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 Company. Right-of-use assets and lease liabilities that arise from leases are initially measured at present value.

Family Guardian Insurance Company Limited

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17. Leases (Continued)

Lease liabilities include the net present value of fixed payments, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the incremental borrowing rate that the Company 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 Company uses recent third party financing received as a starting point and adjust the rate to reflect changes in financing conditions.

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

The Company leases certain office premises under non-cancellable operating leases. From 1 January 2019 the Company 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	-	622,191
1 year to 5 years	-	2,488,765
	-	**3,110,956**

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18. Taxation

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

The Company is also subject to Value Added Tax ("VAT") on taxable supplies at a standard rate of 7.5% up to 30 June 2018 and at 12% commencing 1 July 2018. The Company is eligible for input tax deductions, based on an apportionment formula using the premiums for standard rated taxable and exempt supplies. VAT incurred by the Company in excess of the input tax deductions is included in operating expenses in the statement of comprehensive income.

19. Pension Plan

The Company's pension costs, net of forfeitures in respect to the Plan for the year ended 31 December 2019, amounted to $705,589 (2018: $745,535) and are included in operating expenses in the statement of comprehensive income.

20. Operating Expenses

Operating expenses consists of the following:

	2019	**2018**
	$	**$**
Salaries and benefits	11,966,182	10,480,240
Marketing and public relations	1,616,600	1,254,359
Premises and maintenance	1,920,279	2,544,359
Premium tax and statutory fees	3,700,873	3,507,497
Professional fees	2,618,127	1,047,964
Other expenses	259,823	1,286,387
Total	**22,081,884**	**20,120,806**

21. Commitments and Contingent Liabilities

Outstanding commitments to extend credit under mortgage loan agreements amounted to $3,669,745 as of 31 December 2019 (2018: $4,513,191).

The Company is a defendant in several legal actions arising in the normal course of its business affairs. Management believes that the resolution of these matters will not have a material impact on the Company's financial position. The Company is contingently liable for $5,000 (2018: $5,000) in respect of customs bonds and customs guarantees.

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22. Related Party Balances and Transactions

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

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

	2019	2018
	$	**$**
Related party transactions with the Parent:		
Rent Expense	525,559	559,170
Administrative fees	64,412	-
Post-employment benefits	-	23,919
Related party transactions with the Parent:		
Acquisition of freehold land and building	9,000,000	-
Repayment of mortgage	7,469,086	-
Related party transactions with affiliates:		
Investment management fees	133,114	279,598
Investment management expenses	75,888	139,799
Purchases of government bonds	486,000	-
Purchases of margin loans	1,656,551	-
Purchase of mortgages	892,899	-
Expense allocation	(1,537,469)	-
Related party balances with affiliates:		
Bonus	12,500	-
Brokerage cash and cash equivalent	-	682,691
Related party transactions with other related parties:		
Premiums ceded to reinsurer	3,491,952	3,469,675
Reinsurance recoveries	273,815	546,541
Administration fees	132,000	40,509
Management fees	112,982	172,509
Related party balances with other related parties:		
Receivables and other assets	591,993	373,101
Payables and accruals	507,378	406,047
Compensation of key management personnel:		
Salaries and other short-term employee benefits	2,364,416	2,826,145
Commissions	273,333	452,057
	2,855,607	**3,278,202**

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22. Related Party Balances and Transactions (Continued)

Employees' incentive plan:

The Company sponsors a plan as an on-going incentive system for its key employees. The plan holds 20,400 shares (2018: 16,950 shares) of the Parent company and these shares are awarded to the plan participants on an annual basis for services rendered in the previous year or as special awards for a promotion or upon hiring at the executive level. The Company makes cash awards as the need arises to the plan and the plan purchases the shares as needed on the open market at market value. The shares vest over a period of years, depending on the type of award granted.

The mortgage held by Parent, with a carry interest rate of 6.5% over a 15 year term, and valued at $7,469,086 as at 30 November 2019 (2018: $7,591,090) was repaid on 1 December 2019 by the transfer of the Parent's land and building to the Company. During the year, the Company earned interest on mortgages to the Parent of $444,882 (2018: $370,768).

23. Post-Retirement Medical Benefit

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

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

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

The most recent actuarial valuation was carried out by 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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23. 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 net income:		
Current service cost	139,419	147,162
Interest cost	79,962	79,268
Actuarial loss	-	-
Past service cost recognised	-	-
Net benefit cost in recognised in comprehensive income	**219,381**	**226,430**

	2019	**2018**
	$	**$**
Components of benefit cost recognised in other comprehensive income:		
Remeasurement on the defined benefit liability:		
Actuarial (gain)/loss due to experience	3,535	(129,522)
Actuarial loss due to demographic assumption changes	-	41,057
Actuarial (gain)/loss on DBO	**3,535**	**(88,465)**

	2019	**2018**
	$	**$**
Total benefit cost recognised in net income and other comprehensive income:		
Cost recognised in net income	219,381	226,430
Remeasurement effects recognised in other comprehensive income	3,535	(88,465)
Total benefit cost recognised in net income and other comprehensive income	**222,916**	**137,965**

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23. Post-Retirement Medical Benefit (Continued)

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

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

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

Funded Status

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

	Other Post employment Benefits	
	2019 $	2018 $
Funded status, end of year		
Benefit obligation, funded plans	(1,803,331)	(1,689,922)
Unrecognised net actuarial loss	-	-
Net amount recognised, end of year	**(1,803,331)**	**(1,689,922)**

Amounts recognised in the statement of financial position of:

	2019 $	2018 $
Liability	**(1,803,331)**	**(1,689,922)**

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23. Post-Retirement Medical Benefit (continued)

Funded Status (continued)

	Other Post employment Benefits	
	2019	**2018**
	$	**$**
Experience adjustments		
DBO, end of year	(1,803,331)	(1,689,922)
Funded status	**(1,803,331)**	**(1,689,922)**

	Other Post employment Benefits	
	2019	**2018**
	$	**$**
Change in plan assets		
Fair value of plan assets, beginning of year	-	-
Employer contribution	109,507	105,675
Benefit payments	(109,507)	(105,675)
Fair value of plan assets, end of year	-	-

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

	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 Company expects to contribute $109,507 (2018: $105,972) to the post-retirement benefits plan in 2020. This benefit is expected to be paid from corporate assets.

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24. Subsequent Events

Dividends

On 12 February 2020, the Board of Directors declared a fourth quarter dividend of $0.47 (2018: $0.47) per share or $800,000 (2018: $800,000) to shareholders of record as of 24 February 2020 and paid 2 March 2020.

Unsecured Loan

On 12 February 2020, the Board approved an intercompany unsecured loan of $5 million dollars at a fixed rate of 5.75% for 25 years to the Parent for repayment of its outstanding preferred shares. The unsecured loan is expected to be issued during the current year to cover the remaining fifty percent (50%) owed to its preferred shareholders.

Coronavirus (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 Company expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.