

# ANNUAL REPORT



**2016**



**FAMGUARD**  
CORPORATION LIMITED

“

This past year has given us an opportunity to reaffirm the strength and stability of our operations.

L. Edgar Moxey, Chairman & CEO

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## SECTION ONE: OVERVIEW OF THE COMPANY

Corporate Profile	3
Board Of Directors	4
Board Committees	5
Corporate Governance	7
Audit Committee Report	8
Chairman's Report	9
President's Report	10
2016 Executive Team	11
Management Discussion & Analysis	13
2016 Top Performers	23
2016 Million Dollar Round Table Qualifiers	24
Community Involvement	25
Founders' Day	27

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

- Life Insurance
- Health Insurance
- Annuities
- Employee Benefits
- Home, Auto & Commercial Insurance
- Pensions & Investments
- Brokerage & Advisory Services
- Residential & Commercial Mortgages



### **Family Guardian Insurance Company**

Life & Health Insurance

[www.familyguardian.com](http://www.familyguardian.com)



### **BahamaHealth**

Group & Individual Insurance

[www.bahamahealth.com](http://www.bahamahealth.com)



### **FG Insurance Agents & Brokers**

Property & Casualty Insurance

[www.fgiagentsandbrokers.com](http://www.fgiagentsandbrokers.com)



### **FG Financial**

Pensions & Mutual Funds

[www.fgfinancialbahamas.com](http://www.fgfinancialbahamas.com)



### **FG Capital Markets**

Brokerage & Advisory Services

[www.fgcapitalmarkets.com](http://www.fgcapitalmarkets.com)

L. Edgar Moxey, MBA, CPA, CA

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Director since 2015  
Chairman & CEO  
FamGuard Corporation  
New Providence, The Bahamas

Norbert F. Boissiere

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

Walter A. Wells

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Director since 2007  
President & CEO  
Caribbean Bottling Company (Bahs.) Ltd  
New Providence, The Bahamas

H. Charlotte Pyfrom

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

A. Christine Woodman

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Director since 2000  
Director  
Data Systems Ltd.  
New Providence, The Bahamas

Dodridge D. Miller, FCCA, MBA, LLM

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Director since 2005  
President & CEO  
Sagicor Financial Corporation  
Barbados

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

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Director since 2014  
President & CEO  
Sagicor Life Inc.  
Barbados

Sandra K. Osborne, QC, LLB, FCIS

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Director since 2005  
Attorney-at-Law  
Barbados

M. Craig Roberts

---

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

Bennet R. Atkinson, MBA, CPA

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

The Board of Directors has delegated certain of its responsibilities to committees of the Board. Such committees are generally responsible for reviewing matters specified in their mandates and making recommendations to the Board, which retains ultimate decision-making authority. The Board of Directors has constituted the following committees:

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

#### **Human Resource & Compensation Committee**

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

The Chairman of the Human Resource & Compensation Committee is Mr. Norbert Boissiere.

#### **Audit Committee**

The Audit Committee is responsible for the oversight of the financial reporting and internal controls of the Company, which includes the review and evaluation of the appropriate accounting principles and practices to be observed in the preparation of the accounts of the Company and its subsidiaries.

The Audit Committee is responsible for the initial review of the Company's annual audited consolidated financial statements prior to consideration thereof by the Board of Directors. It approves the scope of the audit activities proposed each year to be conducted by the independent auditors. It also recommends the appointment and approves the terms of engagement of the independent auditors.

The Chairman of the Audit Committee is Mr. Bennet Atkinson.

**Corporate Governance & Conduct Review Committee**

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

The purpose of the Committee is to:

- (a) Develop and recommend to the Board policies and procedures to establish and maintain best practice standards of corporate governance.
- (b) Manage the process for director succession, nomination and recommendation to shareholders for (re-) election as directors.
- (c) Establish and direct the processes for assessing the performance of the Board, its committees and individual directors.
- (d) Oversee the processes relating to communications and public policy and the Company's corporate image.

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

The Chairman of the Corporate Governance & Conduct Review Committee is Ms. Sandra Osborne, QC.

**Technology Committee**

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

The Chairman of the Technology Committee is Mrs. Christine Woodman.

**Investment & Risk Committee**

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

The Chairman of the Investment and Risk Committee is Mr. Walter Wells. Mr. Wells will not offer himself for re-election at the next Annual General Meeting.

**Duties of the Board of Directors**

The Board of Directors of the Company has the obligation to oversee the conduct of the business of the Company and its subsidiaries and to supervise senior management, which is responsible for the day-to-day conduct of the business. Any responsibility that is not delegated to a committee of the Board of Directors or senior management remains with the full Board of Directors.

The Board of Directors deals with all matters that materially impact the Company. The determination as to whether Board approval needs to be sought on a particular matter is the responsibility of the Chairman, the Chief Executive officer, the President, the Chairman of the Audit Committee and the Chairman of the Corporate Governance & Conduct Review Committee.

**Selection of the Chairman of the Board of Directors**

The Chairman is selected by the Board of Directors.

**Meetings of the Board of Directors and their Conduct**

The Board of Directors meets formally at least 4 times per year. In 2016, the full Board of Directors met 4 times. The Board Chairman establishes meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year.

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

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

## YEAR IN REVIEW

### Financial Reporting

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

### Internal Audit and Internal Controls

During the year the Committee reviewed with management and the independent internal auditors, the internal audit charter, plans, activities, staffing, and organizational structure of the internal audit function. The Committee held meetings with the independent internal auditors and management to review quarterly internal audit reports on significant findings and recommendations together with management's responses.

### External Audit

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

### Compliance

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

### Reporting Responsibilities

The Committee provided quarterly reports to the Board of Directors about committee activities and any issues arising. The Committee approved the quarterly and annual financial statements for presentation to the Board and for the Board's ultimate approval for issuance to the shareholders and regulators. The Committee is responsible for providing an open avenue of communication between the internal auditor, the external auditors and the Board of Directors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2016.



Bennet R. Atkinson  
Chairman, Audit Committee

Dear Shareholders:

I am pleased to report that FamGuard's performance for the year ending December 31, 2016 remained strong despite the challenges continuing to affect the Bahamian economy. The Company recorded net profit of \$6.3 million with net income attributable to ordinary shareholders of \$4.8 million or \$0.48 cents per share.

Our net profit in 2016 felt the significant impact of the Central Bank's Prime Rate reduction of 50 basis points, which had the direct effect of decreasing earnings and increasing policy reserves at year end. As a result, net income in 2016 was \$583 thousand, or 8.5%, behind net income recorded in 2015.

Notwithstanding the effect to the bottom line with the change in the Prime Rate, FamGuard's performance in all key areas continued its positive trend with total revenues of \$119.5 million recorded at year-end, exceeding the previous year by \$3 million. The Company's balance sheet recorded total assets of \$347.3 million, an increase of \$23 million over 2015. Shareholders' equity attributable to owners of the parent increased to \$79.4 million, compared to \$77.1 million in 2015.

Over the past three years (2014-2016) we have seen our gross premium income increase by \$4.8 million reflecting steady growth in the Company's sales operations. Our annuity products continue to be an attractive investment choice for clients in light of uncertain interest rates in the market.

Family Guardian, our life and health subsidiary, maintains capital solvency measures well in excess of the minimum requirements of international and local solvency standards.

During 2016 we anticipated the introduction of the National Health Insurance (NHI) initiative, and while the roll-out date was deferred to early 2017, the Company has been engaged in designing enhancements to its group portfolio and wider product offerings. This exercise will be accelerated in 2017 to prepare for changes in the local health market that are likely to occur with the introduction of NHI.

For the second consecutive year, The Bahamas suffered extensive damage from a major hurricane. In 2016 New Providence, Grand Bahama and Andros were severely impacted by Hurricane Matthew, while repairs in Crooked Island, Rum Cay, Long Island and San Salvador are still ongoing after Hurricane Joaquin in 2015. These natural events have exacerbated the country's financial challenges.

This past year has given us an opportunity to reaffirm the strength and stability of our operations. Our financial results for 2016 signify that the strategic broadening of our business lines and investment in technology for improved efficiency have helped us to grow our loyal customer base and to weather the challenges we face in an unpredictable economic climate.

On behalf of the Board of Directors, I extend sincere appreciation to our management, support staff and sales team whose hard work and commitment have contributed to our success. I also thank my fellow Directors for their insight and support, and our shareholders and clients for their continued confidence.



L. Edgar Moxey  
Chairman & CEO





Dear Shareholders:

FamGuard ended 2016 with \$119.5 million of total income, 2.6% better than our performance in 2015. We experienced growth in our Ordinary Life and Group & Individual Health lines, and our Deferred Annuity deposits. Our Home Service line of business remained on par with prior year, despite the impact from the ravages of Hurricane Matthew in many of our key markets during the fourth quarter of 2016. We were also successful in realizing increased investment income as our mortgage portfolio experienced improved performance.

Our net policyholder benefits improved by \$2.4 million, due to improved claims experience in group health business. Counteracting these improvements, we were negatively impacted by the reduction in the local Prime Rate that occurred in early 2017 but had to be factored into our 2016 financial statements. When the effects of this exceptional change were combined with our normal reserve changes, we experienced an increase in our total benefits and expenses of 3.3%, ending the year at \$113.1 million compared to \$109.6 million in 2015.

A reduction in the interest rate environment for a life insurer is usually one of the greatest risk factors affecting profitability. The reduction in the Prime Rate effectively eliminated additional profits from our bottom line, representing the Net Present Value of reduced earnings on our investment assets tied to the Prime Rate. As a result of this, our net income trailed prior year, coming in at \$6.3 million compared to \$6.9 million in 2015, an 8.5% decline in performance. Earnings attributable to ordinary shareholders improved by 5.6%, as we achieved \$4.8 million in net income attributable to ordinary shareholders compared to \$4.6 million in 2015. Earnings per share improved to \$0.48, some two cents better than the \$0.46 posted in 2015.

Total assets reached \$347.3 million compared to \$324.5 million for the prior year, representing a 7.0% increase, while total liabilities increased to \$233.4 million from \$216.4 million in 2015, resulting in an improvement in total equity of \$5.7 million or 5.3%.

We are happy to confirm that our major subsidiary, Family Guardian successfully retained its A. M. Best rating of A- (Excellent) for 2016, demonstrating the insurance company's balance sheet strength, its operating performance and its overall business profile. FamGuard continues to maintain its A. M. Best issuer credit rating of bbb- with a stable outlook. We continue to see steady growth in the operations of our three minor subsidiaries, FG Insurance Agents & Brokers, FG Financial and FG Capital Markets.

We initiated a three-year strategic plan at the end of 2016, centered mainly on improving our technology, enhancing the quality of our products and service delivery, promoting an environment for learning, and developing a long-term succession plan that cascades throughout the organization. We believe in our team of agents and support staff and we demonstrate this in all of our human resource initiatives.

I thank you for your continued confidence in the FamGuard Group, both as an investor as well as a customer. Your support is critical to our ongoing success and is highly valued. To our team of professionals, I extend my heartfelt appreciation for your continued support as it is only through you that we can continue to achieve our vision ***"To connect people with solutions that protect their life, health and wealth"***.

A handwritten signature in black ink that reads "Lyrone Burrows". The signature is fluid and cursive.

Lyrone Burrows  
President

**Lyrone Burrows, BSc., FLMI**  
President

**Kerry Higgs, Ph.D.**  
Senior Vice President  
Administration

**Stuart Kelly, BComm., CPA, FLMI**  
Senior Vice President  
Operations

**Vaughn Delaney, MBA**  
Chief Information Officer

**Michael Hanna, ACS**  
Vice President  
Systems Development and Architecture

**David Slatter, CFA, MBA, MA**  
Vice President  
Investments

**Jayson Clarke, MSc.**  
Vice President  
Technology

**Wendell Smith, CLF, CLU, CIAM, FLMI, IFA**  
Vice President  
Financial Services

**Angela Beckford, BSc., FSA**  
Actuary

**Ramon Curtis, BSc., CPA**  
Vice President  
Finance

**Bryinda Carroll, BSc., MSc., PGDL**  
Vice President  
Legal, Risk & Compliance  
Corporate Secretary

**Marion Chestnut, ACS, AIAA**  
Assistant Vice President  
Operations

**Christine Russell**  
Assistant Vice President  
Home Service, New Providence

**Necka Wells, MBA, FLMI**  
Assistant Vice President  
Group Operations

**Glen Pratt**  
Assistant Vice President  
Information Services

**Ramona Neely**  
Assistant Vice President  
Home Service, Family Islands &  
Grand Bahama

**Siobhan Lloyd, MBA**  
Assistant Vice President  
Human Resources

**Otimia Pennerman, CPA**  
Assistant Vice President  
Internal Audit

**Kershala Albury, BSc., CPA**  
Financial Controller

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We believe in our team of agents and support staff and we demonstrate this in all of our human resource initiatives.

Lyrone Burrows, President

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**Management Discussion and Analysis (MD&A)  
For the year ended December 31, 2016.**

This MD&A is dated April 26, 2017

**OVERVIEW**

FamGuard Corporation Limited (the “Company”) is a public company whose shares are traded on the Bahamas International Securities Exchange (BISX). The Company is incorporated under the laws of the Commonwealth of The Bahamas and serves as an investment holding company for its wholly-owned subsidiaries: Family Guardian Insurance Company Limited, BahamaHealth Insurance Brokers Limited, FG Insurance Agents & Brokers Limited, FG Financial Limited and FG Capital Markets Limited (together the “Group”).

FamGuard Corporation, through its major subsidiary, Family Guardian Insurance Company, obtained participating interest in FG Financial Fund Limited SAC. FG Financial Fund Limited SAC (“the Fund”) is an umbrella fund sponsored by FG Financial Limited and managed by Family Guardian. The Fund encompasses four sub-funds, namely FG Financial Preferred Income Fund, FG Financial Diversified Fund, FG Financial Growth Fund, and FG Financial Global US\$ Bond Fund. Each sub-fund has its own distinct investment strategy and is segregated from the other sub-funds within the Fund. As a result of FamGuard not only having power through the sponsorship of the Fund by its subsidiary FG Financial to direct the activities of the Fund but also benefitting from variable returns through its direct participating interest in the Fund, FamGuard was deemed to have control over the Fund and as such, the Fund must now be consolidated into the financials of FamGuard Corporation.

**BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES**

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

The Group evaluates such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future.

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

## **ECONOMIC REVIEW**

Like many countries throughout the world, The Bahamas was significantly impacted by local and external factors which limited its economic growth in 2016. During the year, we experienced the continued delay of the \$3.5 billion Baha Mar project as well as the effects of Hurricane Matthew and the significant impact it had on the islands of The Bahamas. However, arguably the most significant impact to the country came just before the year ended in the form of the country's sovereign credit rating downgrade.

After several periods of monitoring the economy of The Bahamas, Standard and Poors ("S&P"), the internationally recognized rating agency, announced the downgrade of The Bahamas' sovereign credit rating from BBB-/A3 to BB+ sub-investment grade. The rating agency, which had previously warned of the state of the economy in previous assessments, cited the uncertainty around the stalled Baha Mar project in conjunction with the impact of Hurricane Matthew, which is expected to result in additional debt to the country, as the main basis for the downgrade.

The Group is significantly impacted by the external environment in which it operates. Interest rates and investment yields affect the level of investment returns and profit margins that the Group can generate from its products. This was felt most significantly when the Central Bank of The Bahamas reduced the discount rate by 50 basis points, which ultimately triggered the reduction of the Prime Rate from 4.75% to 4.25%.

The country's national deficit increased to \$314.2 million at the end of the year, while unemployment rates remained high at 11.6%, but slightly lower than the 14.9% in November 2015. This decrease in the unemployment rate at the end of the year can be attributed to jobs that were created in the construction sector as a result of the cleanup and rebuilding in the aftermath of Hurricane Matthew. Inflation fell by -0.35% at the end of 2016 compared to a 1.78% increase in the corresponding prior period. Factors such as economic growth, employment levels and disposable incomes also affect the levels of new and renewed insurance and wealth management products sold by the Group. (Source: The Central Bank of The Bahamas, December 2016 Quarterly Economic Review; The Central Bank of The Bahamas, January 2017 Monthly Economic & Financial Developments Report).

Notwithstanding the country's current economic environment and the significant factors that were faced in 2016, we are pleased with FamGuard's performance for the year ended 2016. We have realized the benefits of investing in our staff and agents, offering quality products and service, and improving technology. We anticipate that the continuation of same will produce positive results for FamGuard's shareholders, staff and the wider community.

**SUMMARY OF FINANCIAL PERFORMANCE**

The insurance industry continues to be challenged by internal and external factors which impact the way we conduct business. Despite the challenges faced by the Company in 2016, we are pleased to report another strong performance year.

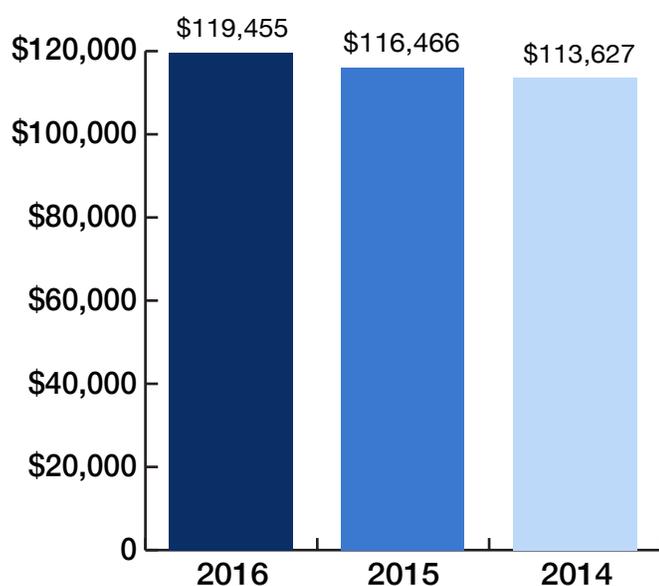
For the year ended December 31, 2016 FamGuard Corporation recorded profits of \$6.3 million. Profit attributable to common shareholders stood at \$4.8 million and represented \$0.48 per ordinary share. The overall performance of the Group is highlighted by an increase in total revenues by 2.6% which was offset by an increase in policyholder benefits and expenses of 3.1%, mainly due to the increase in the reserves for future policyholder benefits. The most significant event impacting the increase in the reserves was the reduction in the prime rate in early 2017.

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FINANCIAL PERFORMANCE	DECEMBER -16	DECEMBER -15	DECEMBER -14
	\$	\$	\$
GROSS PREMIUMS	101,070	99,882	96,222
NET PREMIUMS	90,753	90,244	86,910
ANNUITY DEPOSITS	12,224	10,514	11,854
INVESTMENT & OTHER INCOME	16,478	15,707	14,863
TOTAL REVENUES	119,455	116,466	113,627
TOTAL BENEFITS	76,053	75,436	72,165
COMMISSIONS	12,105	11,691	11,489
ADMINISTRATIVE EXPENSES	24,811	22,452	23,608
NET PROFIT	6,311	6,893	6,365
<b>NET INCOME ATTRIBUTABLE TO:</b>			
ORDINARY SHAREHOLDERS	4,805	4,553	4,720
PREFERRED SHAREHOLDERS	625	625	625
NON-CONTROLLING INTERESTS	880	1,716	1,020

Total revenues increased by \$3.0 million over the prior period, driven mainly by gross premium income and annuity deposits. All three divisions of Family Guardian Insurance Company recorded increases in gross premiums over the comparable prior period. Despite the increase in gross premiums, the uncertainty in the market with respect to the pending National Health Insurance (NHI) had a significant impact on new business in our group division as most employer groups opted to make no major changes with regard to their health plans until the dust settles on the NHI initiative.

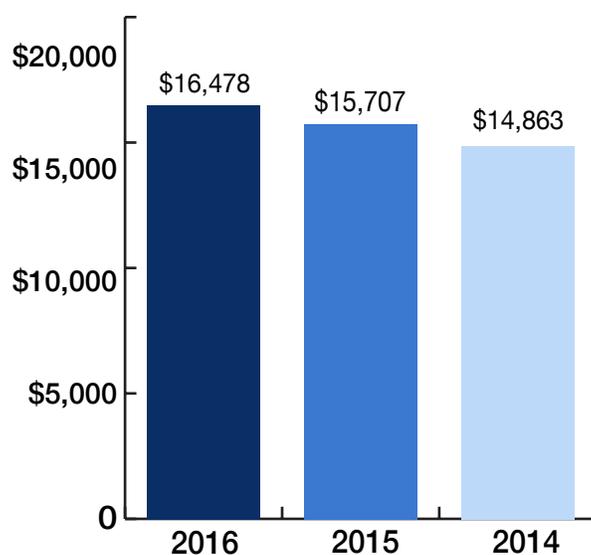
### TOTAL REVENUE

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### INVESTMENT & OTHER INCOME

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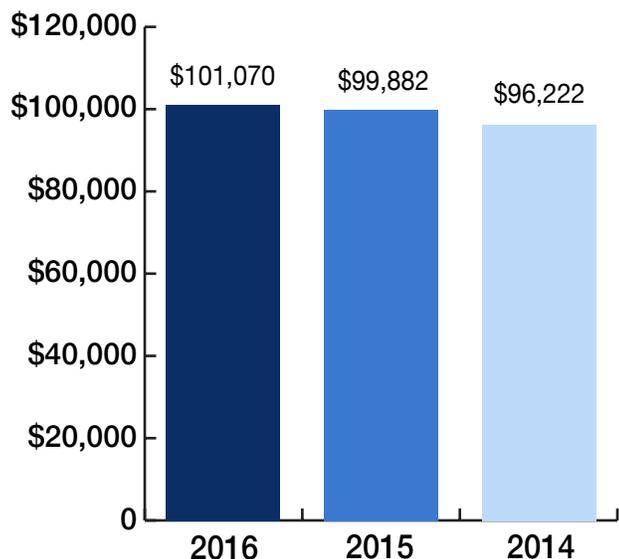
The Company continued to experience strong demand for annuity products, with deposits totaling \$12.2 million, exceeding the prior year. The returns on these products remain competitive with market and provide a superior insurance product option for our customers.

Investment income contributed \$14.1 million to total revenues, of which \$1.1 million was earned by the mutual funds under the umbrella fund, FG Financial Fund Limited SAC. Unrealized losses in FG Financial Growth Fund, FG Financial Diversified Fund, and the USD Global Bond Fund as a result of fluctuations in the market value of certain assets, contributed to a decline in income over the prior period. The Fund recorded an unrealized loss on equities of \$604 thousand compared to unrealized gains of \$531 thousand in 2015. Despite the losses from the fluctuations in the market value of the equity securities, investment income remained steady as these unrealized losses were offset against interest and dividend income from investment assets acquired during the year.

During the year, the Group successfully sold several non-performing mortgage properties under power of sale which accounted for a realized loss in the statement of comprehensive income of \$172 thousand. This loss was offset by the release of mortgage provisions on these delinquent accounts.

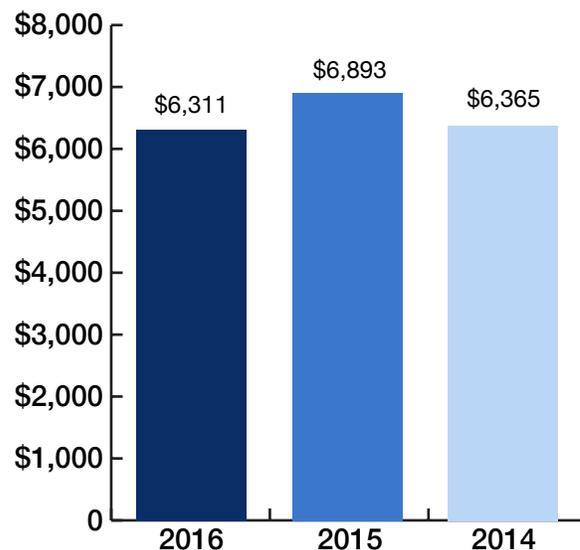
## GROSS PREMIUM INCOME

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## NET PROFIT

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Gains and losses recorded within other comprehensive income arose from the fair value changes of available for sale investment assets and the re-measurement of our defined benefit obligation. Total comprehensive income totaled \$6.8 million.

Total policyholder benefits across all three divisions of Family Guardian totaled \$76.1 million. Included in this amount is the increase in reserves for future policyholder benefits of \$14.7 million, which had the most significant impact on the performance of the group during the year.

Family Guardian in its normal course of business is exposed to a variety of financial risks, including the effects of changes in interest rates. Many of the Company's insurance products have guaranteed cash values and premium rates and our Universal Life policies, accumulation annuities and dividends on deposits inforce have guaranteed minimum interest. These liabilities would usually be matched with long term, fixed rate, high yielding investments; however our local market rates do not provide a significant amount of investments with these favorable characteristics. As a result, the Company is highly sensitive to changes in interest rates. The impact of the 50 basis point reduction in the local Prime Rate added additional reserves to the total increase in reserves for future policyholders' benefits for the period which amounted to \$14.7 million.

At year end the Company transitioned from the Canadian Policy Premium Method (PPM) as its reserving methodology, to the Canadian Asset Liability Method (CALM). CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations. The method consists of four basic steps which includes a determination of the period over which the projections will be performed, the projection of the liability cash flows, the projection of the asset cash flows, and the performance of interest rate scenario testing under a variety of economic conditions. CALM is the recommended methodology by the insurance industry regulator the Insurance Commission of The Bahamas (ICB).

Policyholder benefits on annuity deposits totaled \$14.3 million year to date compared to \$13.0 million in 2015. The negative variance compared to prior year is directly related to increases in reserves as a result of the corresponding increases in actual annuity deposits.

Net death claims ended the year with an increase over prior year of \$38 thousand. While there was an unusual increase in the number of deaths in the first half of the year, this did not persist over the second half of 2016. Health insurance benefits improved to \$40.0 million, compared to \$43.4 million in 2015.

Administrative expenses exceeded prior year by 11.3% primarily due to an increase in employee benefits, the recognition of an impairment on our intangible asset, and an increase in the provision for doubtful accounts in our property and casualty subsidiary, FG Insurance Agents & Brokers Limited.

SHAREHOLDER RETURNS	DECEMBER -16	DECEMBER -15	DECEMBER -14
MARKET VALUE PER SHARE	\$5.82	\$5.60	\$5.50
EARNINGS PER ORDINARY SHARE	\$0.48	\$0.46	\$0.47
DIVIDENDS PER ORDINARY SHARE	\$0.29	\$0.24	\$0.24
RETURN ON COMMON SHAREHOLDERS EQUITY	7.00%	6.90%	7.60%
BOOK VALUE PER COMMON SHARE	\$6.94	\$6.71	\$6.41

The Company's financial strength and stability are evidenced by the consistent growth of its total asset base from year to year. Total assets increased from \$325 million in 2015 to \$347 million in 2016.

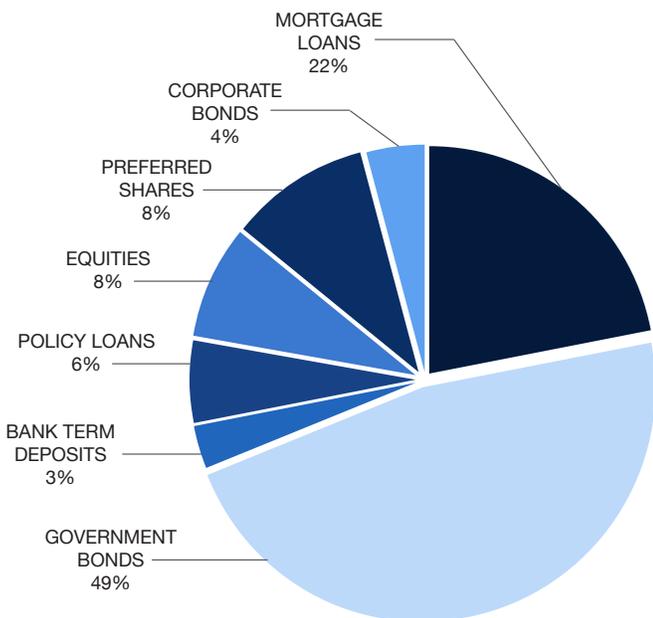
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FINANCIAL POSITION	DECEMBER -16	DECEMBER -15	DECEMBER -14
	\$	\$	\$
INVESTMENT ASSETS	269,157	252,048	235,630
POLICY RESERVES	201,292	187,288	174,666
TOTAL ASSETS	347,258	324,536	301,758
TOTAL LIABILITIES	233,394	216,421	201,633
COMMON SHAREHOLDERS EQUITY	69,444	67,097	64,077
PREFERENCE SHAREHOLDERS EQUITY	10,000	10,000	10,000
NON-CONTROLLING INTEREST	34,420	31,018	26,048
TOTAL EQUITY	113,864	108,115	100,126

**TOTAL ASSETS**

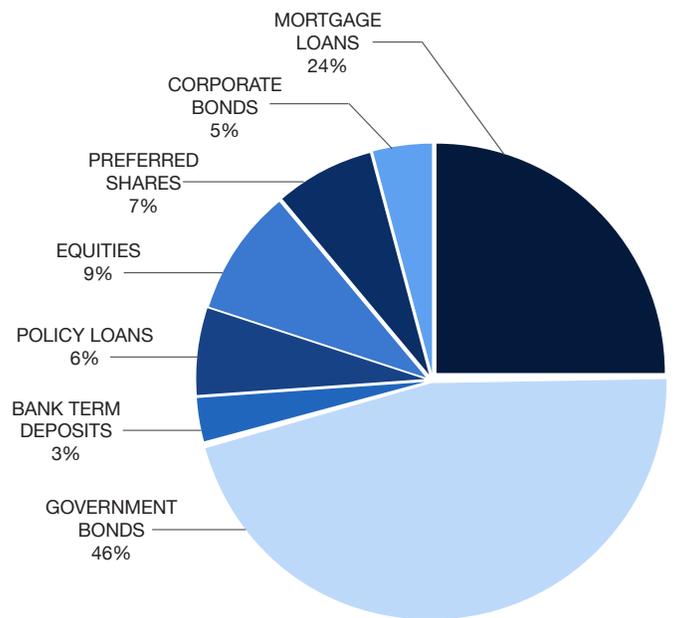
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**INVESTMENT ASSETS 2016**



**INVESTMENT ASSETS 2015**

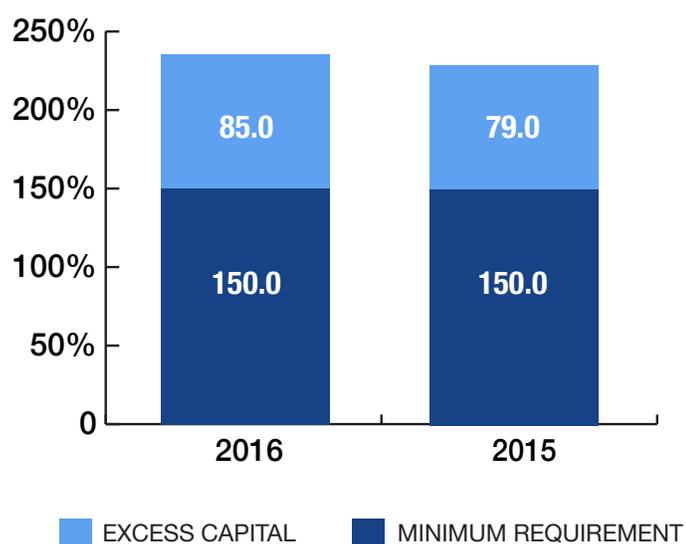


Debt securities comprise the largest class of invested assets and represented 61% of total invested assets and cash. These securities are most significant as their medium to long-term duration, regular interest payments received, and relatively low credit risk are appropriate to back long-term liabilities. The other invested assets are appropriately spread across various asset classes.

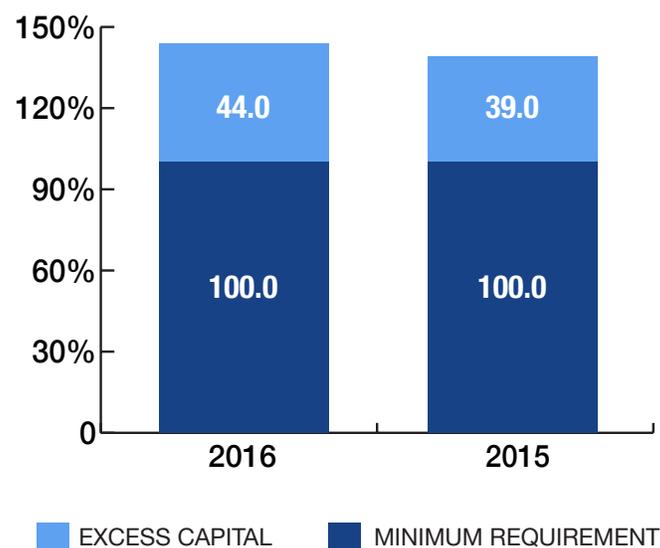
Our mortgage block of business continues to perform favorably, given the current market environment. The Company's non-performing mortgage loans represented 7.3% of the total portfolio, an improvement from the rate of 7.4% reported at the end of 2015. This rate compares favorably with the industry average in The Bahamas, which was at 12.3%. (Source: The Central Bank of The Bahamas, December 2016 Monthly Economic Financial Developments Report)

Maintaining a strong balance sheet is foundational to our long-term sustainability. The measures used to determine the capital adequacy of a life insurance company are the Canadian Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio and the local solvency standard prescribed by the Insurance Act, 2005. Family Guardian, the Company's insurance subsidiary, recorded an MCCSR ratio of 235% as at December 31, 2016 and 144% for the local solvency ratio. Both ratios are significantly in excess of the minimum requirements of 150% and 100% respectively.

### MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS RATIO



### LOCAL SOLVENCY RATIO



## SUMMARY OF QUARTERLY RESULTS

BSD ,000					2016
	Q1	Q2	Q3	Q4	TOTAL
	\$	\$	\$	\$	\$
NET PREMIUMS	22,451	22,738	22,968	22,596	90,753
TOTAL REVENUE	30,429	29,761	30,679	28,586	119,455
<b>QUARTERLY NET INCOME ATTRIBUTABLE TO:</b>					
ORDINARY SHAREHOLDERS	543	2,567	3,027	(1,331)	4,806
PREFERRED SHAREHOLDERS	0	313	0	312	625
NON-CONTROLLING INTEREST	232	287	216	145	880
	775	3,167	3,243	(875)	6,311
QUARTERLY EARNINGS PER ORDINARY SHARE*	\$0.05	\$0.26	\$0.30	(\$0.13)	\$0.48

BSD ,000					2015
	Q1	Q2	Q3	Q4	TOTAL
	\$	\$	\$	\$	\$
NET PREMIUMS	21,908	22,855	22,524	22,958	90,244
TOTAL REVENUE	29,662	29,921	28,958	27,925	116,466
<b>QUARTERLY NET INCOME ATTRIBUTABLE TO:</b>					
ORDINARY SHAREHOLDERS	1,713	1,300	354	1,185	4,552
PREFERRED SHAREHOLDERS	0	313	0	312	625
NON-CONTROLLING INTEREST	229	326	868	293	1,716
	1,942	1,989	1,222	1,790	6,893
QUARTERLY EARNINGS PER ORDINARY SHARE*	\$0.17	\$0.13	\$0.04	\$0.12	\$0.46

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

The Company's risk profile remained consistent as the percentage of net insurance premiums between our long-term and short-term insurance products remained constant. The long-term life insurance block of business includes both our Home Service and Financial Services divisions and our short-term insurance represents our Group division. At the end of the year 2016 our long-term insurance net premiums were 33% of the portfolio and our short-term insurance net premiums were 67% of the portfolio.

### **THE WAY FORWARD**

According to the most recent outlook by the Central Bank of The Bahamas, economic conditions are expected to strengthen mildly in 2017 and at a more accelerated pace in 2018. In December 2016, the Government of The Bahamas announced the sale of Baha Mar to Chow Tai Fook Enterprises Limited. The resort anticipates a phased opening to begin April 2017 and to be fully operational by spring 2018. Further employment is anticipated from the tourism and construction sectors, driven by work to complete the Baha Mar project. Additional jobs are anticipated from the ongoing hurricane repairs and foreign direct investment.

As we enter 2017, we anticipate continued disruption within the economy and the industry in which we operate. These challenges have forced us to exercise greater prudence in our fiscal responsibilities as we manage the profitability of the Company. Management has identified key priorities and objectives that will be used to guide FamGuard's strategic directives for 2017 and beyond, with the primary goal of improving the Company's operations and shareholder value.

The low interest rate environment in which we operate will continue to impact the profitability of the Company and result in the use of creative and innovative means to pursue growth. As a part of our strategic initiatives, we will continue to explore opportunities to expand our current business and to develop new lines of business which will allow the Company to remain competitive and support the sustainable growth of the Company.

Pressures on disposable income of clients and potential clients as well as the uncertainty of National Health Insurance will impact the way we are able to generate new business and manage our existing portfolios. We continue to review our existing products and focus on creating new and enhanced products and services to meet our clients' insurance and investment needs. Some of these products have recently been launched, while others will come to market in the very near future.

The ushering in of a new President of the United States of America adds another layer of uncertainty as changes in their economic and regulatory environment will ultimately impact The Bahamas. We remain vigilant in monitoring local and international events that affect our country's economy and will respond strategically to meet the new challenges.

The digital age in which we live requires us to be more innovative and creative in the way we do business with our customers. The age of smartphone users, social media outlets, and other technological advances have changed the expectations of customers. Adapting to these changes will be important to driving sales. To attract and retain customers, the effective use of technology will be essential. We will continue to enhance our technology to drive cost efficiencies within the organization while focusing on the needs of our customers.



**FINANCIAL SERVICES  
EXECUTIVE AGENT OF THE YEAR  
INGRID ROSE**



**FINANCIAL SERVICES  
AGENT OF THE YEAR  
OPAL ADDERLEY**



**HOME SERVICE  
AGENT OF THE YEAR  
ANISHKA COLEBROOKE**



**HOME SERVICE  
ROOKIE OF THE YEAR  
SHAYVONE TURNQUEST**

**FOUNDERS' AWARDEES**



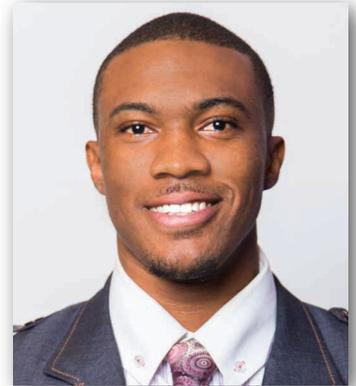
**NORBERT BOISSIERE AWARD FOR  
OUTSTANDING PERFORMANCE  
KENDENIQUE ROKER**



**JACK KNOWLES AWARD FOR  
CUSTOMER SERVICE  
MARSHA JOHNSON**



**FAMGUARD SPIRIT AWARD  
DEANDRIA RICHARDS**



**FAMGUARD SPIRIT AWARD  
RASHAD HEPBURN**



**HOME SERVICE DISTRICT OF THE YEAR AWARD  
FAMILY ISLAND DISTRICT  
Gracelene Curry, Alice Wells, Ramona Neely, Timicka Burnside, Vernice Francois**



**INGRID ROSE**  
AIAA, ACS, FLMI



**OPAL ADDERLEY**  
BA



**KATINA ROACH**  
BSc.



**ANNA WILSON-SMITH**  
BA, FIA



**KATRINA WHYMS**



**JULIE SMITH**  
CLU, IFA



**PAMELA HART**



**INGRID CAMBRIDGE**



**DELORES FARQUHARSON**



**JAMAHL SMITH**

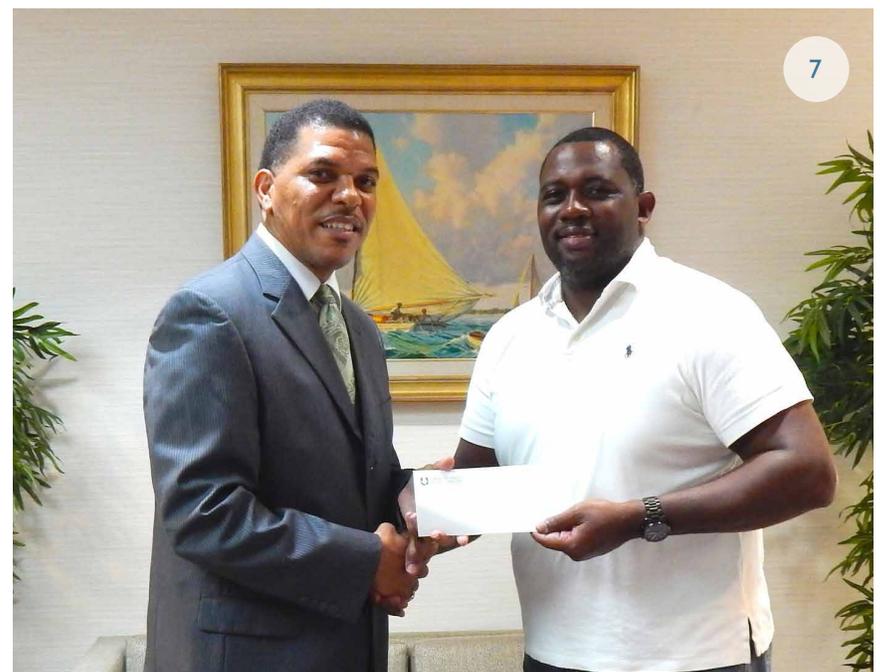
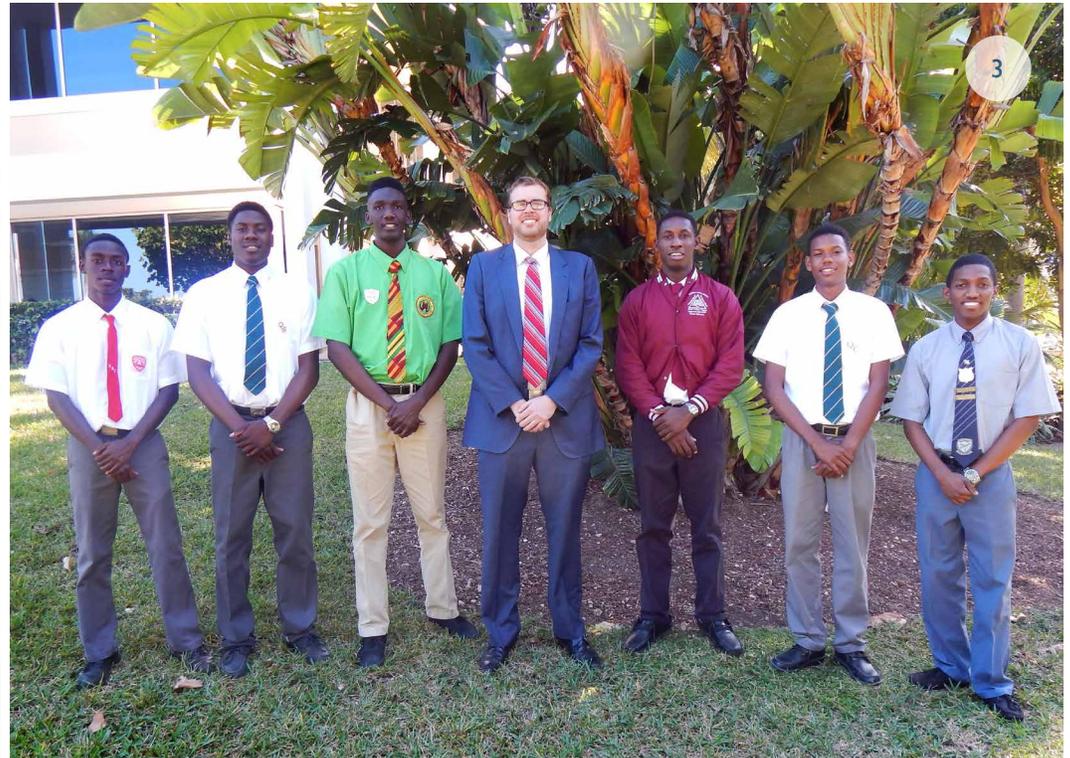


**ANN MARIE MAJOR**



### PHOTO CAPTIONS:

- (1) Family Guardian’s Annual College of The Bahamas Scholarship Award
- (2) Family Guardian sponsors a Junior BaseBall League of Nassau Team - The Family Guardian Knights
- (3) FamGuard donates to the Gentlemen’s Club



- (4) Sponsorship of the 30th Annual Family Guardian/Barracuda Swim Meet
- (5) FG Insurance Agents & Brokers (FGIAB) donates to Hands For Hunger
- (6) FamGuard's donation to the Bahamas Baseball Federation
- (7) Family Guardian supports the Police Staff Association
- (8) FamGuard donates to the International Christian Centers For the Deaf



# 6<sup>TH</sup> ANNUAL FOUNDERS' DAY

Family Guardian's Founders' Day is celebrated each year as an occasion for community building in the neighborhoods where we work and live.

The Founders' Day outreach programme began in 2010 to commemorate the Company's 45th Anniversary. In September each year, our nine offices throughout The Bahamas close for one business day to allow our entire team to visit charitable organizations and neighbouring schools as we pay tribute to the pioneers of the Company and the communities we serve.

Each year, our staff and agents select the people and places they wish to share the day with and plan a programme of entertainment, games and refreshments. This year, management, staff and agents celebrated Founders' Day at the special organizations listed.



**ABACO SALES OFFICE**  
Crossing Rocks Public School



**BAHAMAHEALTH**  
Salvation Army School For The Blind



**CORPORATE OFFICE**  
The Centre For The Deaf



**CARMICHAEL SALES OFFICE**  
Children's Emergency Hostel



**CHIPPINGHAM SALES OFFICE**  
Abilities Unlimited



**FINANCIAL SERVICES NASSAU**  
Stapledon School



**FINANCIAL SERVICES FREEPORT**  
Grand Bahama Children's Home



**FREEPORT SALES OFFICE**  
Church Of God Home For The Aged



**LIFE OPERATIONS**  
Bahamas Down Syndrome Centre



**MARATHON SALES OFFICE**  
Demetrius Home For The Aged

### **CHARITIES VISITED BUT NOT PICTURED INCLUDE:**

**CAT ISLAND:** Orange Creek Community

**ELEUTHERA SALES OFFICE:** Lower Bogue Community

**EXUMA SALES OFFICE:** Farmers Hill Seniors

**FRESH CREEK, ANDROS:** Fresh Creek Primary

**MANGROVE CAY, ANDROS:** Long Bay Cays Primary School

**NORTH ANDROS/BERRY ISLANDS:** The Disabled of Lowe Sound

**LONG ISLAND:** Deadman's Cay Primary School

“

The Company recorded net profit of \$6.3 million with net income attributable to ordinary shareholders of \$4.8 million or \$0.48 cents per share.

”



## SECTION TWO: CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report	31
Appointed Actuary's Report	36
Consolidated Statement of Financial Position	37
Consolidated Statement of Profit or Loss and Other Comprehensive Income	39
Consolidated Statement of Changes in Equity	41
Consolidated Statement of Cash Flows	42
Notes to Consolidated Financial Statements	44
Advisors & Consultants	93
Company Addresses	94



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Fax: + 1 (242) 322-3101  
<http://www.deloitte.com/bahamas>

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of FamGuard Corporation Limited

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of FamGuard Corporation Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### 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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

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

Key Audit Matter	Summary of the Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<b>Mortgage loans impairment allowances</b>	<p>At December 31, 2016, the gross mortgage loans receivables were \$63,465,489 against which an impairment allowance of \$2,057,057 was recorded. (Refer to note 6 to the consolidated financial statements.)</p> <p>The impairment allowance is considered to be a matter of key significance as it requires the application of judgment and use of subjective assumptions by management. The Group assesses the impairment allowance on certain non-current loans and interest income, in accordance with the accounting policy set out in note 3j to the consolidated financial statements.</p> <p>Management's determination of the appropriate level of impairment allowance involves a complex evaluation of many objective and subjective assumptions. It also relies on the integrity of the data used in the model calculations which are derived from various sources.</p>	<p>We tested the design and implementation of the key controls around the process to determine which mortgage loan receivables are impaired and specific provisions made against those assets. This included testing controls over the timely identification of delinquent and other mortgage loan receivables with indicators of impairment.</p> <p>We tested a sample of mortgage loans (including mortgage loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.</p>
<b>Actuarial assumptions used in the valuation of future policyholders' benefits</b>	<p>At December 31, 2016, the liability for future policyholders' benefits amounted to \$201,292,443 (Refer to note 10 to the consolidated financial statements.)</p> <p>The valuation of the Group's liability for future policyholders' benefits is dependent on a number of subjective assumptions about future experience. Some of the economic and non-economic actuarial assumptions used in valuing the liability are judgmental, in particular persistency (the retention of policies over time), longevity (the expectation of how long a policyholder will live and how that might change over time), expenses (future expenses incurred to maintain existing policies to maturity), and the estimated future inflation and interest rates.</p> <p>Management's determination of the assumptions to use in calculating the liability involves an evaluation of many objective and subjective assumptions and requires consultation and discussion with the Group's actuaries concerning the Group's operations including changes in the internal and external environment.</p>	<p>We tested the design and implementation of key controls around the processes to determine the valuation of the liability for future policyholders' benefits.</p> <p>We used our own actuarial specialists to assess the actuarial assumptions, including the consideration and challenge of management's rationale for the judgments applied and any reliance placed on industry information.</p> <p>We also tested the inputs and outputs of the valuation model and its overall integrity.</p>

Key Audit Matter	Summary of the Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Revenue recognition	<p>The Group's revenue for the year end December 31, 2016 amounted to \$119,454,825 and the revenue accounting policy is disclosed in notes 3o and 3w to the consolidated financial statements. As the Group is a listed entity, we consider there to be a heightened risk that revenue is inappropriately reported to achieve a desired financial result.</p> <p>The particular areas of heightened risk include inappropriate revenue recognition by way of:</p> <ul style="list-style-type: none"> <li>• Revenue being recorded on a basis inconsistent with the revenue accounting policy;</li> <li>• posting of journal entries by management without due authorization and approval which directly impact revenue through management override of controls;</li> <li>• revenue being recognized in the incorrect accounting period through early recognition or deferral at the year-end date.</li> </ul>	<p>We tested the design and implementation of key controls over the main revenue streams.</p> <p>We tested the recognition of revenue for the various income streams to ensure that revenue was being recognized in compliance with the documented accounting policy and that the policy was being consistently applied throughout the year. This included the review of revenue streams around the year-end to ensure that revenue had been reflected in the appropriate accounting period.</p> <p>We used computer assisted audit techniques to evaluate potentially unusual journal entries posted to revenue to ensure that they had been appropriately authorized, approved and the entries were in accordance with standard business practices.</p>

### Other Information

Management is responsible for the Other Information. The Other Information comprises all the information in the FamGuard Corporation Limited 2016 annual report other than the Group financial statements and our auditor's report thereon ("the Other Information"). Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon. In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Raymond Winder.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the typed name and date.

Nassau, Bahamas  
April 26, 2017



## APPOINTED ACTUARY'S REPORT

### To the Board of Directors and Shareholders of FamGuard Corporation Limited

I have valued the actuarial liabilities and other policy liabilities of FamGuard Corporation Limited for its consolidated statement of financial position at 31 December 2016 and the change in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 in accordance with generally accepted actuarial practice including selection of appropriate assumptions and methods.

In my opinion, the amount of the actuarial and other policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements of FamGuard Corporation Limited fairly represent the results of the valuation.

A handwritten signature in black ink, appearing to read "Jean Mongrain". The signature is fluid and cursive.

Jean Mongrain  
Fellow, Canadian Institute of Actuaries  
Fellow, Society of Actuaries  
Member, Caribbean Actuarial Association  
April 20, 2017

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016

*(Expressed in Bahamian dollars)*

	Notes	2016	2015
<b>ASSETS</b>			
Fair value through profit or loss	6	\$ 13,065,957	\$ 13,565,734
Available-for-sale	6	13,912,881	13,245,237
Held-to-maturity	6	164,603,183	147,967,758
Loans	6	<u>77,575,014</u>	<u>77,269,049</u>
Total financial investment assets		269,157,035	252,047,778
Cash and bank balances		16,145,293	10,187,065
Reinsurance assets	10	7,979,721	8,677,855
Receivables and other assets, net	7, 22	19,852,029	18,785,175
Intangible assets, net	9	378,333	653,333
Property, plant and equipment, net	8	<u>33,745,316</u>	<u>34,184,417</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 347,257,727</u></u>	<u><u>\$ 324,535,623</u></u>

*(Continued)*

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2016

(Expressed in Bahamian dollars)

	Notes	2016	2015
<b>LIABILITIES AND EQUITY</b>			
LIABILITIES:			
Reserves for future policyholders' benefits	10	\$ 201,292,443	\$ 187,287,913
Other policyholders' funds	11	<u>17,638,441</u>	<u>18,270,484</u>
Policy liabilities		218,930,884	205,558,397
Payables and accruals	12, 22, 23	<u>14,462,724</u>	<u>10,862,444</u>
Total liabilities		<u>233,393,608</u>	<u>216,420,841</u>
EQUITY:			
Preference shares	15	10,000,000	10,000,000
Ordinary shares	15	2,000,000	2,000,000
Share premium	15	10,801,080	10,801,080
Revaluation reserve	14	16,572,792	15,939,372
Retained earnings		<u>40,070,095</u>	<u>38,356,787</u>
Equity attributable to owners of the Parent		79,443,967	77,097,239
Non-controlling interests	22, 27	<u>34,420,152</u>	<u>31,017,543</u>
Total equity		<u>113,864,119</u>	<u>108,114,782</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 347,257,727</u>	<u>\$ 324,535,623</u>

(Concluded)

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on April 24, 2017, and are signed on its behalf by:



Director



Director

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2016

(Expressed in Bahamian dollars)

	Notes	2016	2015
INCOME:			
Gross premium income	16	\$ 101,069,634	\$ 99,882,258
Premiums ceded to reinsurers	16, 22	<u>(10,316,803)</u>	<u>(9,638,363)</u>
Net premium income	16	90,752,831	90,243,895
Annuity deposits		<u>12,224,103</u>	<u>10,514,190</u>
Net premium income and annuity deposits		102,976,934	100,758,085
Interest income		13,494,595	12,811,810
Dividend income		1,432,720	1,364,652
Realized loss on sale of assets		(227,455)	(867,922)
Unrealized (loss) gain on investment assets	6	(603,559)	531,446
Other operating income	22	<u>2,381,590</u>	<u>1,867,462</u>
Total income		<u>119,454,825</u>	<u>116,465,533</u>
BENEFITS AND EXPENSES:			
Benefits:			
Policyholders' benefits	17	66,264,008	69,229,126
Reinsurance recoveries	17, 22	<u>(4,913,622)</u>	<u>(5,525,419)</u>
Net policyholders' benefits		61,350,386	63,703,707
Increase in reserves for future policyholders' benefits	10	<u>14,702,664</u>	<u>11,732,065</u>
Total benefits		<u>76,053,050</u>	<u>75,435,772</u>
Expenses:			
Operating expenses	18-20, 22, 23	22,126,476	20,582,781
Commissions	22	12,105,443	11,691,270
Depreciation expense	8	1,742,704	1,587,470
Bad debt expense, net	6, 7	841,482	174,837
Impairment of intangible asset	9	175,000	-
Amortization	9	<u>100,000</u>	<u>100,000</u>
Total expenses		<u>37,091,105</u>	<u>34,136,358</u>
Total benefits and expenses		<u>113,144,155</u>	<u>109,572,130</u>
PROFIT FOR THE YEAR		<u>6,310,670</u>	<u>6,893,403</u>

(Continued)

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2016

(Expressed in Bahamian dollars)

	Notes	2016	2015
OTHER COMPREHENSIVE INCOME:			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net change in fair value on available-for-sale financial assets	14	569,620	881,458
Realized loss reclassified to profit and loss	14	63,800	-
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of defined benefit obligation	23	<u>(192,038)</u>	<u>(14,172)</u>
Total other comprehensive income		<u>441,382</u>	<u>867,286</u>
TOTAL COMPREHENSIVE INCOME		<u>\$ 6,752,052</u>	<u>\$ 7,760,689</u>
PROFIT ATTRIBUTABLE TO:			
Ordinary shareholders		\$ 4,805,346	\$ 4,552,516
Preferred shareholders		625,000	625,000
Non-controlling interests	27	<u>880,324</u>	<u>1,715,887</u>
		<u>\$ 6,310,670</u>	<u>\$ 6,893,403</u>
Basic earnings per ordinary share	24	<u>\$ 0.48</u>	<u>\$ 0.46</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Ordinary shareholders		\$ 5,246,728	\$ 5,419,802
Preferred shareholders		625,000	625,000
Non-controlling interests		<u>880,324</u>	<u>1,715,887</u>
		<u>\$ 6,752,052</u>	<u>\$ 7,760,689</u>

(Concluded)

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2016 (Expressed in Bahamian dollars)

	Notes	Share Preference Shares (Note 15)	Share Capital Ordinary Shares (Note 15)	Share Premium (Note 15)	Revaluation Reserve (Note 14)	Retained Earnings	Attributable to Owners of the Parent	Non- Controlling Interests (Note 27)	Total
<b>Balance as of December 31, 2014</b>		\$ 10,000,000	\$ 2,000,000	\$ 10,801,080	\$ 15,057,914	\$ 36,218,443	\$ 74,077,437	\$ 26,048,393	\$ 100,125,830
Additional non-controlling interests arising from net contributions from investors	27	-	-	-	-	-	-	3,253,263	3,253,263
Profit for 2015		-	-	-	-	5,177,516	5,177,516	1,715,887	6,893,403
Other comprehensive income for 2015	14, 23	-	-	-	881,458	(14,172)	867,286	-	867,286
Dividends declared and paid - Preference shares		-	-	-	-	(625,000)	(625,000)	-	(625,000)
Ordinary shares (\$0.24 per share)	26	-	-	-	-	(2,400,000)	(2,400,000)	-	(2,400,000)
<b>Balance as of December 31, 2015</b>		<u>10,000,000</u>	<u>2,000,000</u>	<u>10,801,080</u>	<u>15,939,372</u>	<u>38,356,787</u>	<u>77,097,239</u>	<u>31,017,543</u>	<u>108,114,782</u>
Additional non-controlling interests arising from net contributions from investors	27	-	-	-	-	-	-	2,522,285	2,522,285
Profit for 2016		-	-	-	-	5,430,346	5,430,346	880,324	6,310,670
Other comprehensive income for 2016	14, 23	-	-	-	633,420	(192,038)	441,382	-	441,382
Dividends declared and paid - Preference shares		-	-	-	-	(625,000)	(625,000)	-	(625,000)
Ordinary shares (\$0.29 per share)	26	-	-	-	-	(2,900,000)	(2,900,000)	-	(2,900,000)
<b>Balance as of December 31, 2016</b>		<u>\$ 10,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 10,801,080</u>	<u>\$ 16,572,792</u>	<u>\$ 40,070,095</u>	<u>\$ 79,443,967</u>	<u>\$ 34,420,152</u>	<u>\$ 113,864,119</u>

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

(Expressed in Bahamian dollars)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year		\$ 6,310,670	\$ 6,893,403
Adjustments for:			
Depreciation expense	8	1,742,704	1,587,470
Amortization of intangible asset	9	100,000	100,000
Impairment of intangible asset	9	175,000	-
Unrealized loss (gain) on investment assets		603,559	(531,446)
Realized loss on sale of investment assets		227,455	867,922
Decrease (increase) in reinsurance assets		698,134	(889,892)
Increase (decrease) in mortgage provision	6	274,668	(6,891)
Change in reserves for future policyholders' benefits		14,004,530	12,621,957
Interest income		(13,494,595)	(12,811,810)
Dividend income		(1,432,720)	(1,364,652)
Operating profit before working capital changes		9,209,405	6,466,061
Increase in receivables and other assets		(1,066,854)	(3,800,574)
Increase (decrease) in payables and accruals		3,600,280	(40,049)
(Decrease) increase in other policyholders' funds		(632,043)	2,206,362
Net cash from operating activities		<u>11,110,788</u>	<u>4,831,800</u>

(Continued)

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

(Expressed in Bahamian dollars)

	Notes	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net changes in non-controlling interest		\$ 1,918,726	\$ 3,784,709
Net (placement of) proceeds from bank term deposits greater than three months		(1,110,312)	5,856,297
Proceeds from redemption of (purchase of) corporate bonds		682,637	(4,630,974)
Net purchase of preferred shares		(1,192,487)	(2,321,501)
Purchase of Government bonds and notes		(14,810,842)	(11,214,000)
Net purchase of equities		(103,782)	(291,043)
Net policy loans issued		(882,991)	(668,919)
Net mortgage collections (loan issued)		310,680	(1,129,720)
Net purchase of property, plant and equipment	8	(2,011,507)	(2,034,340)
Proceeds from disposal of property, plant and equipment		716,423	-
Interest received		13,423,175	10,805,925
Dividends received		<u>1,432,720</u>	<u>1,364,652</u>
Net cash used in investing activities		<u>(1,627,560)</u>	<u>(478,914)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid on ordinary shares		(2,900,000)	(2,400,000)
Dividends paid on preferred shares		<u>(625,000)</u>	<u>(625,000)</u>
Net cash used in financing activities		<u>(3,525,000)</u>	<u>(3,025,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		5,958,228	1,327,886
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year		<u>10,187,065</u>	<u>8,859,179</u>
End of year		<u>\$ 16,145,293</u>	<u>\$ 10,187,065</u>

(Concluded)

See notes to consolidated financial statements.

## FAMGUARD CORPORATION LIMITED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

*(Expressed in Bahamian dollars)*

#### 1. GENERAL

FamGuard Corporation Limited (the “Company”) is incorporated under the laws of the Commonwealth of The Bahamas and serves as an investment holding company with five wholly owned subsidiaries; Family Guardian Insurance Company Limited (FG), BahamaHealth Insurance Brokers Limited (formerly BahamaHealth Insurance Brokers and Benefit Consultants Limited), FG Insurance Agents & Brokers Limited, FG Financial Limited and FG Capital Markets Limited (together, “the Group”). FG is the principal operating unit and is licensed as an insurance company under the Insurance Companies Act, 1969. FG sells life and health insurance products in The Bahamas.

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

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

#### 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

The following standards, amendments and interpretations are effective for the year ended December 31, 2016. These standards, interpretations and the amendments are either not relevant to the Group’s operations or are not expected to have significant impact on the Group’s financial statements other than certain additional disclosures.

##### **New standards**

IFRS 14 Regulatory Deferral Accounts

##### **Amended standards**

Amendments resulting from September 2014 annual improvements to IFRSs

Amendments resulting from September 2014 annual improvements to IFRSs

IFRS 10 & IAS 28 Amendments to clarify the accounting for the loss of control of a subsidiary when the subsidiary does not constitute a business

IFRS 11 Amendments to clarify the accounting for the acquisition of an interest in a joint operation when the activity constitute a business

IAS 16 and IAS 38	Amendments to clarify acceptable methods of depreciation and amortization
IAS 16 and IAS 41	Amendments to clarify accounting for agriculture Bearer Plants
IAS 27	Amendments to allow the application of the equity method in separate Financial Statements
IFRS 10, IFRS 12 and IAS 28	Amendments to clarify the application of the Consolidation exception for Investment Entities
Various	Amendments to various Standards derived from Annual improvements to IFRSs 2012–2014 Cycle
IAS 1	Amendments to IAS 1 - Disclosure Initiative
IAS 19, IAS 34	Amendments resulting from September 2014 Annual improvements to IFRSs

#### **NEW ACCOUNTING STANDARDS AND IFRS INTERPRETATIONS THAT ARE NOT YET EFFECTIVE**

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them.

<b>New and amended Standards</b>		<b>Effective for annual periods beginning on or after</b>
IFRS 2	Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 and IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRS 7	Additional disclosures (and consequential amendments) resulting from IFRS 9	Concurrent with adoption of IFRS 9
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(*)
IFRS 16	Leases	1 January 2019

IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017
IAS 7	Disclosure initiative	1 January 2017
IFRS 15	Clarification to IFRS 15	1 January 2018

(\*) The IASB decided in December 2015 to defer the effective date indefinitely; nevertheless, the amendments are available for earlier adoption.

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the consolidated financial statements of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

- a. **Statement of compliance** - The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and the interpretations adopted by the International Accounting Standards Board (IASB).
- b. **Basis of preparation** - The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain property, plant and equipment and financial instruments.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account, the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis.

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

The accounting policies set out below have been applied consistently by the Group's entities.

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

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

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

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

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

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

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

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

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

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

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

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

A listing of the Group's subsidiaries is set out in Note 28.

- d. Cash and cash equivalents* - For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, demand balances with banks and bank term deposits with original contractual maturities of three months or less.
- e. 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.
- f. 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 of Actuaries (“CIA”) and are determined by the Group's Appointed Actuary. These liabilities consist of the amounts that, together with future premiums and investment income, are required to provide for future policy benefits and expenses on insurance and annuity contracts.

During the year, the Group changed its actuarial reserving methodology for long-term insurance contracts to the Canadian Asset Liability Method (“CALM”) from the Canadian Policy Premium Method (“PPM”) which is an approximation of CALM. CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations. In accordance with International Accounting Standard (“IAS”) 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Group has applied the changes prospectively.

The Group segments assets to support liabilities by major product line and establishes investment strategies for each liability segment. Projected net cash flows from these assets and the policy liabilities being supported by these assets are combined with projected cash flows from future asset purchases to determine expected rates of return on these assets for future years. Investment strategies are based on the target investment policies for each segment and the reinvestment returns are derived from current and projected market rates for fixed income investments.

Investment return assumptions for each asset class make provision for expected future asset credit loss, expected investment management expenses and a margin for adverse deviation.

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

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

- g. *Property, plant 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, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Improvements which extend the useful lives or increase the value of assets are capitalized.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the consolidated statement of profit or loss and other comprehensive income as repairs and maintenance during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold land and buildings are credited to the revaluation surplus account in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve account directly in equity; all other decreases are charged to the consolidated statement of profit or loss and other comprehensive income.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts over their estimated useful lives, as follows:

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the consolidated statement of profit or loss and other comprehensive income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings.

Work in progress is stated at cost. Depreciation charges are deferred on work in progress until project completion, at which time such assets are transferred to specific categories of property, plant and equipment.

- h. *Intangible assets*** - Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

As a result of certain acquisitions of insurance contracts, the Group carries a customer contract intangible asset representing the value of future profits from the acquired contracts. This asset was initially measured at fair value by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group subsequently amortizes this asset on a straight-line basis over the estimated life of 10 years.

- i. *Financial investment assets*** - The Group classifies its financial investment assets in the following categories; (i) financial assets at fair value through profit or loss (FVTPL), (ii) held-to-maturity, (iii) available-for-sale (AFS) and (iv) loans and receivables. The classification depends on the purpose for which the investment assets were acquired. Management determines the classification of its investment assets at initial recognition.

**(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 Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

**(ii) *Held-to-maturity***

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturities, other than those that meet the definition of loans and receivables that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are recorded at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

**(iii) *Available-for-sale***

A financial investment asset is classified as financial assets available-for-sale if acquired principally for the purpose of selling in the long-term or if it does not meet the definition for any other category.

Regular-way purchases and sales of equities are recognized on trade date, which is the date that the Group commits to purchase or sell the equity. Investments in equities are initially recognized at cost and subsequently re-measured at fair value. AFS investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less any identified impairment losses.

Fair value is determined by reference to quoted bid prices for ordinary shares. Investments are determined to have been sold when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Unrealized gains and losses arising from changes in the fair value of the investments in equities are recognized in other comprehensive income in the period in which they arise. Realized gains and losses arising from changes in the fair value of the investments in equities are transferred from other comprehensive income to profit or loss in the period in which they arise.

Management in their assessment of the equity securities determined that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. In making its judgment of what is considered significant or prolonged management has evaluated factors such as the volatility of the share price, the financial health of the investee, industry and sector performance, and the nature of the market in which the investments are traded. In consideration of these factors, Management's policy defines a significant decline as a decline in value of more than forty percent (40%) and a prolonged decline as a decline in value for more than 24 months. When an available-for-sale financial asset is considered to be impaired, cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit and loss in the period.

**(iv) Loans and receivables**

A financial investment asset is classified as loans and receivables if it is a non-derivative financial asset with fixed or determinable payments that is not quoted in an active market, other than those that the Group intends to sell in the short-term.

Loans and receivables are carried at amortized cost, using the effective interest method less any provision for impairment in value.

A loan or receivable is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for loans and receivables carried at amortized cost is calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

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

Policy loans and automatic premium loans are carried at the balance outstanding plus accrued interest. No provision for loss on these loans is deemed necessary by management because these loans are fully collateralized by the cash surrender value of the policies.

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

Mortgage and commercial loans are stated at the principal balance outstanding plus accrued interest, less specific provisions on certain non-current loans and deferred commitment fees. Specific provisions are made on non-current loans for mortgages over three months in arrears, based on management's evaluation of the respective loans. A specific provision for current loans and non-current loans less than three months in arrears is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the mortgage loan. Significant financial difficulties of the borrower, probability that the borrower will enter financial reorganization, 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 recognized in the consolidated statement of profit or loss and other 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 recognized in the consolidated statement of profit or loss and other comprehensive income. Payments on loans past due are first applied to the interest outstanding. Accrued interest on non-current loans is excluded from interest income.

**k. Foreign currency translation:**

- (i) Functional and presentation currency** - Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (functional currency), the Bahamian dollar. The consolidated financial statements are presented in Bahamian dollars, which is also the Group's presentation currency.
- (ii) Transactions and balances** - Assets and liabilities denominated or accounted for in currencies other than the Bahamian dollar are translated into Bahamian dollars at the exchange rate prevailing at the consolidated statement of financial position date. Foreign currency transactions and income and expense items have been translated at the exchange rates prevailing at the date of the transaction. Gains or losses arising from transactions in foreign currencies are included in the consolidated statement of profit or loss and other comprehensive income.

- l. Impairment of assets* - The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment, for assets carried at amortized cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

If in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment is decreased and the decrease is recognized in the consolidated statement of profit or loss and other comprehensive income.

- m. Reinsurance transactions* - In the normal course of its life and health insurance business, the Group seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Contracts entered into that meet the classification requirements for insurance contracts in Note 3(v) are classified as reinsurance contracts held. Under the excess coverage contracts, the Group retains a range of \$75,000 to \$100,000 (2015: \$75,000 to \$100,000) coverage per individual life and individual accidental death benefit.

Under the quota share contracts, the Group retains 50% of the face amount per individual life and accidental death benefit to a maximum of \$100,000 on any one life insured. Individual and group medical retention limit is retained at \$175,000 per member.

The benefits to which the Group is entitled under reinsurance contracts held are recognized 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 recognized as an expense when due.

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

- n. Financial liabilities* - Financial liabilities are classified at initial recognition, as financial liabilities at FVTPL, loans and borrowings, trade and other payables, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and insurance payables, net of directly attributable transaction costs. The Group's financial liabilities include investment contracts without 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. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has designated investment contracts without DPF as financial liabilities at FVTPL upon initial recognition. Gains or losses on designated or held for trading liabilities are recognized in fair value gains and losses in the statement of profit or loss and other comprehensive income.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest amortization process. Amortized 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 amortization is included in finance cost in the statement of profit or loss and other comprehensive income.

A financial liability is derecognized 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 recognized in the statement of profit or loss.

- o. Non-premium revenue recognition* - Revenue is measured at the fair value of the consideration received or receivable. Non-premium revenue is accounted for on the accrual basis.

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

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

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

- p. Leases* - Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

- q. *Employee benefits - pension obligations*** - The Group has a defined contribution pension plan for eligible agents and employees whereby the Group pays contributions to a pension plan separately administered by the Group. The Group has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their gross earnings and commissions and the Group contributes 4% of eligible earnings. The Group's contributions to the defined contribution pension plan are recognized in the consolidated statement of profit or loss and other comprehensive income in the year to which they relate.
- r. *Employee benefits - postretirement medical benefit*** - For defined benefit retirement plans, 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. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:
- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
  - Net interest expense or income; and
  - Remeasurement.

The Group presents the first two components of defined benefit costs in operating expenses on the consolidated statement of profit or loss and other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

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

- s. *Share capital*** - Shares are classified as equity when there is no obligation to transfer cash or other assets.
- t. *Earnings per share*** - Basic earnings per share is calculated by dividing profit or loss available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares. There are no dilutive transactions that would have an impact to earnings per share.
- u. *Dividend distribution*** - Dividend distribution to the Group's shareholders are recognized in the consolidated financial statements in the year in which the dividends are declared by the Board of Directors. Dividends declared after the year end but before the approval of the financial statements are disclosed in the notes.

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
  - (i) the performance or a specified pool of contracts or a specified type of contract; and
  - (ii) realized and/or unrealized investment returns on a specified pool of assets held by the Group.

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

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

***Short-term insurance contracts***

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

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

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognized 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 recognized. 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.

***Long-term insurance contracts without fixed and guaranteed terms***

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognized as revenue when they become payable by the policyholder. These premiums 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 recognized 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 recognized. The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income. A margin for adverse deviations is included in the assumptions.

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

- x. ***Other provisions*** - Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

- y. *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 (including close family members of such individuals);
  - (v) Key management personnel - persons who have authority for planning, directing and controlling the enterprise (including close family members of such individuals);
  - (vi) Directors; and
  - (vii) Enterprises owned by the individuals described in (i), (iv) and (v).
- z. *Segments*** - For the purposes of segment reporting, the products and services provided by the Group are subject to similar risks and returns. There are no distinguishable geographical segments, as the geographical areas in which the Group operates are considered to be of similar economic and political conditions and subject to the same risks and returns. Direct expenses are recognized directly by the segment. General and administrative expenses are allocated mainly by square footage of office space used, time spent by employees, or head count depending on the nature of the expense.
- aa. *Issues and redemptions of participating shares*** - The Group issues participating, non-voting shares which are redeemable for cash equal to a proportionate share of the net assets of the Fund. These are classified as non-controlling interests in the consolidated statement of financial position. These shares are recorded at prices calculated monthly based on the net asset value of the Fund. Participation in the Fund is limited to eligible investors as described in the Fund's Prospectus.
- bb. *Commission expense*** - Commission expense is comprised of commissions earned by the Group's sales force and external agents and brokers on insurance and investment products sold. Commission expense is recognized when payable.
- cc. *Policy dividends on deposits*** - Policy dividends on deposits comprises dividends declared on policies, together with accrued interest, but not withdrawn from the Group.
- dd. *Taxation*** - The Group is subject to tax on gross premium income at a rate of 3%. There are no taxes levied on the Group, except Value Added Taxes, applied at a rate of 7.5% on goods and services purchased.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

##### *Critical judgments in applying the Group's accounting policies*

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

##### *a. Classification of insurance contracts*

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

##### *b. Control over FG Financial Fund Limited SAC*

In October 2013, the Group obtained participating interests in an affiliated umbrella fund, FG Financial Fund Limited SAC. The interests were obtained at market net asset values.

Note 28 describes that FG Financial Fund Limited SAC is a subsidiary of the Group, even though the Group only has a 33% (2015: 35%) ownership interest in the affiliated umbrella fund.

The Group assessed whether or not it has control over the Fund, based on practical ability to direct the relevant activities of the Fund unilaterally. In making their judgment, the Group considered that the relevant activities of the Fund are determined by the Board of Directors of the Fund based on majority vote. However, the majority of the Board members of the Fund also serve as Directors of the Group, giving them power to direct the relevant activities. In addition, the Board of the Fund is selected by 100% of the voting rights held by a subsidiary in the Group.

Additionally, the Group obtained exposure or rights to variable returns through its direct investment and the investment of other related parties (de facto agents). Therefore, after assessment, it was concluded that the Group has sufficient power to direct the relevant activities of the Fund and sufficient exposure or rights to variable returns; therefore it has control over FG Financial Fund Limited SAC.

***Key sources of estimation uncertainty-critical accounting estimates***

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

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

The Group evaluates such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future.

***c. Estimate of future payments and premiums arising from long-term insurance contracts.***

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

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

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

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

***e. Impairment of non-financial assets***

The Group has made significant investments in tangible and intangible assets. These assets and investments 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.

***f. Revaluation of property, plant and equipment***

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

***g. Loan loss provision***

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

***h. Impairment of financial assets***

The Group determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

*i. Retirement benefit obligation*

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

Other key assumptions for retirement benefit obligations include medical, dental and vision cost trend rates and mortality rates. Medical rates are determined by the current year's average per capita costs for all participants. 2016 average per capita costs for retirees was estimated by age groupings.

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

## **5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK**

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

*a. Fair value of financial assets and liabilities*

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

In the opinion of management, the estimated fair value of financial assets and financial liabilities (cash and bank balances, premiums receivable, receivables and other assets and accounts payable and accrued liabilities) at the consolidated statement of financial position date were not materially different from their carrying values due to their short term nature.

*(Continued)*

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

		2016					
		FVTPL	Loans and Receivables	Held-To- Maturity	Available- For-Sale	All Other Financial Liabilities	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	\$	-	\$ 16,145,293	\$ -	\$ -	\$ -	\$ 16,145,293
Financial investment assets		13,065,957	77,575,014	164,603,183	13,912,881	-	269,157,035
Reinsurance assets		-	7,979,721	-	-	-	7,979,721
Receivables and other assets		-	19,852,029	-	-	-	19,852,029
		<u>\$ 13,065,957</u>	<u>\$ 121,552,057</u>	<u>\$ 164,603,183</u>	<u>\$ 13,912,881</u>	<u>\$ -</u>	<u>\$ 313,134,078</u>
<b>FINANCIAL LIABILITIES</b>							
Payables and accruals	\$	-	-	-	-	\$ 14,462,724	\$ 14,462,724
Other Policyholders' funds		-	-	-	-	17,638,441	17,638,441
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,101,165</u>	<u>\$ 32,101,165</u>
		2015					
		FVTPL	Loans and Receivables	Held-To- Maturity	Available- For-Sale	All Other Financial Liabilities	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	\$	-	\$ 10,187,065	\$ -	\$ -	\$ -	\$ 10,187,065
Financial investment assets		13,565,734	77,269,049	147,967,758	13,245,237	-	252,047,778
Reinsurance assets		-	8,677,855	-	-	-	8,677,855
Receivables and other assets		-	18,785,175	-	-	-	18,785,175
		<u>\$ 13,565,734</u>	<u>\$ 114,919,144</u>	<u>\$ 147,967,758</u>	<u>\$ 13,245,237</u>	<u>\$ -</u>	<u>\$ 289,697,873</u>
<b>FINANCIAL LIABILITIES</b>							
Payables and accruals	\$	-	-	-	-	\$ 10,862,444	\$ 10,862,444
Other Policyholders' funds		-	-	-	-	18,270,484	18,270,484
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,132,928</u>	<u>\$ 29,132,928</u>

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

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

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

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

*(Continued)*

	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
FVTPL	\$ 13,065,957	\$ -	\$ -	\$ 13,065,957
Available-for-sale	<u>13,912,881</u>	<u>-</u>	<u>-</u>	<u>13,912,881</u>
	<u>\$ 26,978,838</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,978,838</u>
	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
FVTPL	\$ 13,565,734	\$ -	\$ -	\$ 13,565,734
Available-for-sale	<u>13,245,237</u>	<u>-</u>	<u>-</u>	<u>13,245,237</u>
	<u>\$ 26,810,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,810,971</u>

The Group did not have any financial instruments classified as Level 3 as at December 31, 2016.

**b. Insurance risk**

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

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

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

The Group seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Under the excess coverage contracts, the Group retains a range of \$75,000 to \$100,000 (2015: \$75,000 to \$100,000) coverage per individual life and individual accidental death benefit.

Under the quota share contracts, the Group retains 50% of the face amount per individual life and accidental death benefit to a maximum of \$100,000 on any one life insured. Individual and group medical retention limit is retained at \$175,000 per member.

### *Long-term insurance contracts*

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

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

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

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

\$	2016	2015
0 - 9,999	\$ 114,182,825	\$ 114,788,830
10,000 - 24,999	310,793,113	303,994,821
25,000 - 49,999	114,715,127	103,971,898
50,000 and over	<u>992,238,944</u>	<u>1,001,072,263</u>
	<u>\$ 1,531,930,009</u>	<u>\$ 1,523,827,812</u>

### *Short-term insurance contracts*

The following table shows the estimate of claims by calendar year, net of reinsurance, for the past 10 years. The top half of the table shows how the estimate of total incurred claims for each calendar year varies based on when the estimate is made. Generally, the estimate becomes closer to the final reality in each subsequent year, as a smaller percentage of claims remain unpaid. The lower portion of the table reconciles the current estimate of incurred claims (less those claims already paid) with the amount included in the consolidated statement of financial position on December 31, 2016. (All amounts are in \$000).

	Year claim is incurred										Total
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Estimate of ultimate claims											
End of year incurred	\$ 16,632	\$ 24,044	\$ 36,431	\$ 38,848	\$ 37,645	\$ 34,607	\$ 32,832	\$ 34,718	\$ 41,712	\$ 38,260	\$ 335,729
One year later	\$ 15,767	\$ 23,552	\$ 36,534	\$ 38,407	\$ 36,260	\$ 33,963	\$ 31,617	\$ 33,682	\$ 41,296		
Two years later	\$ 15,703	\$ 23,556	\$ 36,542	\$ 38,443	\$ 36,308	\$ 34,157	\$ 31,496	\$ 33,807			
Three years later	\$ 15,694	\$ 23,564	\$ 36,590	\$ 38,482	\$ 36,294	\$ 34,077	\$ 31,533	\$ -			
Four years later	\$ 15,695	\$ 23,597	\$ 36,617	\$ 38,475	\$ 36,289	\$ 34,091	\$ -	\$ -			
Current (December 31, 2016) estimate of ultimate claims	\$ 15,695	\$ 23,597	\$ 36,617	\$ 38,475	\$ 36,289	\$ 34,091	\$ 31,533	\$ 33,807	\$ 41,296	\$ 38,260	\$ 329,660
Cumulative payments (through December 31, 2016)	<u>15,695</u>	<u>23,597</u>	<u>36,617</u>	<u>38,475</u>	<u>36,289</u>	<u>34,082</u>	<u>31,513</u>	<u>33,789</u>	<u>41,186</u>	<u>33,225</u>	<u>324,468</u>
Current (December 31, 2016) statement of financial position liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 20	\$ 18	\$ 110	\$ 5,035	\$ 5,192

(Continued)

**c. *Cash flow and fair value interest rate risk***

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

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

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

Loans and held-to-maturity financial assets are subject to floating interest rates. If future interest rates were increased or decreased by 1%, interest income in the consolidated statement of profit or loss and other comprehensive income would increase or decrease by \$2,084,731 (2015: \$1,697,007).

**d. *Market risk***

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Group manages its risk through the Investment Committees, 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 \$916,235 (2015: \$849,665) and profit or loss of \$1,306,596 (2015: \$1,356,573). Management mitigates this risk by diversification of its portfolio.

**e. *Credit risk***

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

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

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

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

The Group has one main reinsurer for its long-term insurance contracts, a large multinational corporation that has a Standard & Poors (S&P) rating of AA-.

**f. Liquidity risk**

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

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

	2016					
	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Short-term insurance contracts	\$ -	\$ 5,972,455	\$ -	\$ -	\$ -	\$ 5,972,455
Long-term with fixed and guaranteed terms	814,283	(5,362,083)	(5,528,823)	13,660,158	293,958,815	297,542,350
Long-term without fixed and guaranteed terms	70,017,340	949,030	6,521,037	8,973,402	26,905,336	113,366,145
Long-term without fixed and guaranteed terms and with DPF	-	542,257	3,945,091	7,526,997	54,955,964	66,970,309
Total	\$ 70,831,623	\$ 2,101,659	\$ 4,937,305	\$ 30,160,557	\$ 375,820,115	\$ 483,851,259

	2015					
	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Short-term insurance contracts	\$ -	\$ 7,456,429	\$ -	\$ -	\$ -	\$ 7,456,429
Long-term with fixed and guaranteed terms	947,831	(3,016,370)	4,257,477	20,406,736	218,397,717	240,993,391
Long-term without fixed and guaranteed terms	65,489,090	1,137,037	7,171,944	9,366,153	32,863,165	116,027,389
Long-term without fixed and guaranteed terms and with DPF	-	795,235	4,859,904	8,439,556	67,483,655	81,578,350
Total	\$ 66,436,921	\$ 6,372,331	\$ 16,289,325	\$ 38,212,445	\$ 318,744,537	\$ 446,055,559

Amounts not classified consist mostly of deferred annuity fund balances.

**g. Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

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

*(Continued)*

In addition to the solvency margins required by the regulators, the Group measures its solvency ratio using Canadian reserve methodologies and solvency standards as measured by the Minimum Continuing Capital and Surplus Requirement (“MCCSR”). At December 31, 2016 the Group’ MCCSR ratio exceeded the required target of 150%.

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

***h. Operational risk***

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

*(Concluded)*

## 6. FINANCIAL INVESTMENT ASSETS

Financial investment assets comprise the following:

	<b>2016</b>	<b>2015</b>
<b>(a) Fair value through profit or loss (FVTPL):</b>		
At beginning of year	\$ 13,565,734	\$ 12,743,245
Purchase of equities	103,782	291,043
Change in unrealized (loss) gain on investment in equities through profit or loss	<u>(603,559)</u>	<u>531,446</u>
At end of year	<u>\$ 13,065,957</u>	<u>\$ 13,565,734</u>
<b>(b) Available for sale (AFS):</b>		
Investment in equities at beginning of year	\$ 8,496,647	\$ 7,615,189
Net change in fair value on available for sale financial assets	<u>665,704</u>	<u>881,458</u>
	<u>9,162,351</u>	<u>8,496,647</u>
Investment in redeemable preferred shares	4,664,040	4,662,040
Add: Accrued interest receivable	<u>86,490</u>	<u>86,550</u>
	<u>4,750,530</u>	<u>4,748,590</u>
Total financial investment assets available-for-sale	<u>\$ 13,912,881</u>	<u>\$ 13,245,237</u>

*(Continued)*

	2016	2015
<b>(c) Held-to-maturity (HTM):</b>		
Bahamas Government bonds	\$ 99,908,300	\$ 83,177,000
Bahamas Mortgage Corporation bonds	10,100,000	10,000,000
Bahamas Government notes	4,550,000	8,830,000
Education Loan Authority bonds	7,300,000	7,300,000
Clifton Heritage bonds	2,238,600	2,238,600
Bahamas Treasury notes	4,256,042	2,009,000
Bridge Authority bonds	<u>819,900</u>	<u>807,400</u>
Government bonds, at amortized cost	129,172,842	114,362,000
Add: Accrued interest receivable	<u>2,032,650</u>	<u>1,748,261</u>
	<u>131,205,492</u>	<u>116,110,261</u>
Redeemable preferred shares, at amortized cost	13,290,613	12,100,126
Add: Accrued interest receivable	<u>55,643</u>	<u>56,640</u>
	<u>13,346,256</u>	<u>12,156,766</u>
Corporate bonds, at amortized cost	11,689,337	12,371,974
Add: Accrued interest receivable	<u>182,960</u>	<u>119,205</u>
	<u>11,872,297</u>	<u>12,491,179</u>
Other bank term deposits, at amortized cost	7,862,078	6,751,766
Add: Accrued interest receivable	<u>317,060</u>	<u>457,786</u>
	<u>8,179,138</u>	<u>7,209,552</u>
Total financial investment assets held-to-maturity	<u>\$164,603,183</u>	<u>\$147,967,758</u>

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

Held-to-maturity securities have interest rates ranging from 1.75% to 8.5% per annum (2015: 1.75% to 8.5%) and scheduled maturities between 2017 and 2045 (2015: 2016 and 2044).

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.

In accordance with amendments dated October 13, 2008 to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, the Group opted to reclassify its investment in equities at that date from fair value through profit or loss to available-for-sale with effect from July 1, 2008. The carrying value of the investments in the reclassified equities is equivalent to the fair value and as at December 31, 2016 is \$7,798,753 (2015: \$7,582,177).

*(Continued)*

The accumulated gain or fair value loss that would have been recognized in profit or loss since the reclassification had the investment in equities not been reclassified is \$1,436,796 gain (2015: \$1,156,420 gain) taking into consideration impairment losses previously transferred to profit or loss.

	2016	2015
<b>(d) Loans:</b>		
(i) Policy loans comprise:		
Policy loans	\$ 12,245,948	\$ 11,362,278
Automatic premium loans	<u>3,219,845</u>	<u>3,220,524</u>
	15,465,793	14,582,802
Add: Accrued interest receivable	<u>803,630</u>	<u>757,639</u>
	<u>16,269,423</u>	<u>15,340,441</u>
(ii) Mortgage loans comprise:		
Commercial:		
Current	1,672,800	1,781,058
Past due but not impaired	351,198	552,727
Over 90 days	1,465,481	1,160,642
Residential:		
Current	51,625,744	51,617,246
Past due but not impaired	5,176,471	5,114,126
Over 90 days	<u>3,173,795</u>	<u>3,550,370</u>
	63,465,489	63,776,169
Less: Specific provision for credit risk	(2,057,057)	(1,782,389)
Deferred commitment fees	<u>(397,542)</u>	<u>(404,499)</u>
	61,010,890	61,589,281
Add: Accrued interest receivable	<u>294,701</u>	<u>339,327</u>
	<u>61,305,591</u>	<u>61,928,608</u>
Total loans	<u>\$ 77,575,014</u>	<u>\$ 77,269,049</u>

Policy loans and automatic premium loans (APLs) are allowed on Ordinary Life policies. An interest rate ranging from 0% to 11% (2015: 0% to 11%) per annum is charged on policy loans and APLs.

(Continued)

Movements in loan loss provisions are as follows:

	<b>Specific Provision</b>
Balance as of December 31, 2014	\$ 1,789,280
Bad debt expense	967,861
Recovery of bad debt	<u>(974,752)</u>
Balance as of December 31, 2015	1,782,389
Bad debt expense	525,777
Recovery of bad debt	<u>(251,109)</u>
Balance as of December 31, 2016	<u>\$ 2,057,057</u>

An interest rate of 5.75% per annum (2015: 5.75%) is charged on residential mortgage loans to directors, officers and staff with two or more years of service. Included in total loans are mortgages to related parties which carry interest rates between 5.75% to 7.0% in the amount of \$215,376 (2015: \$231,068). Related party interest income from mortgages for the year ended December 31, 2016 is \$18,011 (2015: \$15,238) and related party interest receivable on mortgages as of December 31, 2016 is \$589 (2015: \$879).

As of December 31, 2016, the Group had non-performing mortgage loans of \$4,639,276 (2015: \$4,711,012) for which interest of \$1,693,361 (2015: \$1,661,124) had not been recognized in the consolidated statement of profit or loss and other comprehensive income. Management has determined that mortgage loans totaling \$5,527,669 (2015: \$5,666,853) are past due but not considered impaired.

During the year, the Group sold properties under power of sale, which had previously been provided for. As such, the provisions in respect to these properties were released. The release of provisions for the year ended December 31, 2016 amounted to \$251,109 (2015: \$974,752) and this is included in net bad debt expenses in the consolidated statement of profit or loss and other comprehensive income.

*(Concluded)*

## 7. RECEIVABLES AND OTHER ASSETS, NET

Receivables and other assets comprise:

	<b>2016</b>	<b>2015</b>
Other receivables and other assets	\$ 8,075,050	\$ 5,814,599
Reinsurance recoveries	6,843,058	6,958,049
Premium receivables	3,846,630	4,482,033
Receivables from general insurance clients	1,610,460	1,647,924
Prepayments and deposits	<u>679,674</u>	<u>540,425</u>
	21,054,872	19,443,030
Less: allowance for doubtful accounts	<u>(1,202,843)</u>	<u>(657,855)</u>
	<u>\$19,852,029</u>	<u>\$18,785,175</u>

The movement in allowance for doubtful accounts is as follows:

	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 657,855	\$ 560,818
Bad debt expense	566,814	181,728
Recovery of bad debt	<u>(21,826)</u>	<u>(84,691)</u>
Balance, end of year	<u>\$ 1,202,843</u>	<u>\$ 657,855</u>

## 8. PROPERTY, PLANT AND EQUIPMENT, NET

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

	2016							Total
	Freehold Land	Freehold Buildings	Furniture & Equipment	Motor Vehicles	Computer Hardware & Software	Leasehold Improvements	Work in Progress	
Year ended December 31, 2016								
Opening net book amount	\$ 10,174,420	\$ 19,199,245	\$ 1,000,217	\$ 8,733	\$ 774,893	\$ 991,216	\$ 2,035,693	\$ 34,184,417
Additions	-	-	31,259	28,495	268,925	47,803	1,635,025	2,011,507
Transfers	-	500,523	223,819	-	623,570	-	(1,347,912)	-
Disposals - cost	(352,780)	(366,580)	-	(26,867)	-	-	-	(746,227)
Depreciation charge	-	(546,792)	(449,981)	(10,311)	(376,018)	(359,602)	-	(1,742,704)
Disposals - accumulated depreciation	-	11,456	-	26,867	-	-	-	38,323
Closing net book amount	<u>\$ 9,821,640</u>	<u>\$ 18,797,852</u>	<u>\$ 805,314</u>	<u>\$ 26,917</u>	<u>\$ 1,291,370</u>	<u>\$ 679,417</u>	<u>\$ 2,322,806</u>	<u>\$ 33,745,316</u>
As of December 31, 2016								
Cost or revaluation	\$ 9,821,640	\$ 19,820,523	\$ 4,947,345	\$ 78,072	\$ 4,795,457	\$ 6,031,487	\$ -	\$ 45,494,524
Work in progress	-	-	-	-	-	-	2,322,806	2,322,806
Accumulated depreciation	-	(1,022,671)	(4,142,031)	(51,155)	(3,504,087)	(5,352,070)	-	(14,072,014)
Net book amount	<u>\$ 9,821,640</u>	<u>\$ 18,797,852</u>	<u>\$ 805,314</u>	<u>\$ 26,917</u>	<u>\$ 1,291,370</u>	<u>\$ 679,417</u>	<u>\$ 2,322,806</u>	<u>\$ 33,745,316</u>

(Continued)

	2015							Total
	Freehold Land	Freehold Buildings	Furniture & Equipment	Motor Vehicles	Computer Hardware & Software	Leasehold Improvements	Work in Progress	
Year ended December 31, 2015								
Opening net book amount	\$ 10,174,420	\$ 19,686,580	\$ 1,370,386	\$ 15,719	\$ 951,012	\$ 1,313,028	\$ 232,050	\$ 33,743,195
Additions	-	-	58,713	-	70,825	19,470	1,885,332	2,034,340
Transfers	-	-	-	-	58,117	23,572	(81,689)	-
Disposals - cost	-	-	(6,000)	-	(14,028)	-	-	(20,028)
Depreciation charge	-	(487,335)	(428,882)	(6,986)	(299,413)	(364,854)	-	(1,587,470)
Disposals - accumulated depreciation	-	-	6,000	-	8,380	-	-	14,380
Closing net book amount	<u>\$ 10,174,420</u>	<u>\$ 19,199,245</u>	<u>\$ 1,000,217</u>	<u>\$ 8,733</u>	<u>\$ 774,893</u>	<u>\$ 991,216</u>	<u>\$ 2,035,693</u>	<u>\$ 34,184,417</u>
As of December 31, 2015								
Cost or revaluation	\$ 10,174,420	\$ 19,700,280	\$ 4,692,268	\$ 76,443	\$ 3,883,537	\$ 5,969,984	\$ -	\$ 44,496,932
Work in progress	-	-	-	-	-	-	2,035,693	2,035,693
Accumulated depreciation	-	(501,035)	(3,692,051)	(67,710)	(3,108,644)	(4,978,768)	-	(12,348,208)
Net book amount	<u>\$ 10,174,420</u>	<u>\$ 19,199,245</u>	<u>\$ 1,000,217</u>	<u>\$ 8,733</u>	<u>\$ 774,893</u>	<u>\$ 991,216</u>	<u>\$ 2,035,693</u>	<u>\$ 34,184,417</u>

(Continued)

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurement of the Group's land and buildings as at December 31, 2014 was performed by Bahamas Realty, a qualified independent property appraiser.

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

Freehold land and buildings each include a revaluation surplus of \$6,112,476 (2015: \$6,112,476) and \$4,258,402 (2015: \$4,258,402), respectively.

Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been \$13,786,161 (2015: \$11,963,752).

Details of the Group's freehold land and buildings fair value hierarchy at December 31, 2016 is as follows:

	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Freehold land	\$ -	\$ 2,730,000	\$ 7,091,640	\$ 9,821,640
Freehold buildings	-	-	18,797,852	18,797,852
	<u>\$ -</u>	<u>\$ 2,730,000</u>	<u>\$25,889,492</u>	<u>\$28,619,492</u>
	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Freehold land	\$ -	\$ 2,730,000	\$ 7,444,420	\$10,174,420
Freehold buildings	-	-	19,199,245	19,199,245
	<u>\$ -</u>	<u>\$ 2,730,000</u>	<u>\$26,643,665</u>	<u>\$29,373,665</u>

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.

*(Concluded)*

## 9. INTANGIBLE ASSET, NET

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

The movement in the intangible asset is as follows:

	<b>2016</b>	<b>2015</b>
At cost	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Accumulated amortization:		
Balance, beginning of year	346,667	246,667
Amortization	100,000	100,000
Impairment loss	<u>175,000</u>	<u>-</u>
Balance, end of year	<u>621,667</u>	<u>346,667</u>
Net book value	<u>\$ 378,333</u>	<u>\$ 653,333</u>

## 10. RESERVES FOR FUTURE POLICYHOLDERS' BENEFITS

During the year, the Group changed its actuarial reserving methodology for the determination of reserves for future policyholders' benefits to the Canadian Asset Liability Method ("CALM") from the Canadian Policy Premium Method ("PPM") which is an approximation of CALM. CALM involves the projection of future interest rate scenarios in order to determine the amount of assets needed to provide for all future obligations. In accordance with International Accounting Standard ("IAS") 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Group has applied the changes prospectively.

As of December 31, 2016 the aggregate reserves for future policyholders' benefits and related insurances in-force are summarized as follows:

	<b>Reserves</b>		<b>Insurances in force</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Ordinary life	\$ 81,253,988	\$ 74,256,159	\$2,240,084,000	\$2,205,236,000
Annuities	76,697,536	71,549,333	-	-
Home service life	35,668,209	33,238,325	502,301,000	489,479,000
Accident and health	<u>7,672,710</u>	<u>8,244,096</u>	<u>-</u>	<u>-</u>
Gross liabilities	201,292,443	187,287,913	2,742,385,000	2,694,715,000
Reinsurance assets	<u>(7,979,721)</u>	<u>(8,677,855)</u>	<u>-</u>	<u>-</u>
	<u>\$193,312,722</u>	<u>\$178,610,058</u>	<u>\$2,742,385,000</u>	<u>\$2,694,715,000</u>

*(Continued)*

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

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

(i) ***Mortality and Morbidity***

Assumptions for Home Service life business are based on Group experience. Assumptions for other business lines are based on industry experience, as the Group does not have sufficient of its own experience. A margin is added for adverse deviation equal to 15 per 1,000 divided by the expectation of life for mortality and 8% to 10% for morbidity. If future mortality and morbidity rates were to differ by 10% from that assumed, the liability would increase by \$4,820,666 (2015: \$4,055,152) or decrease by \$4,893,319 (2015: \$4,094,316).

(ii) ***Investment Yields***

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

Under CALM, the rates of return on future investments are already subject to various sensitivity tests. The base scenario dictates a convergence toward a median historical interest rates curves, whereas the Group's most adverse plausible scenario assumes future yield curve equal to 80% of the yield curve of the Base Scenario. If future interest rates were to differ by 100 basis points from that assumed, without changing the policyholder dividend scale, the liability would increase by \$15,991,864 (2015: \$13,627,676) or decrease by \$21,085,873 (2015: \$17,505,859).

(iii) ***Persistency***

Lapse rates are based on the Group's experience where credible experience is available and industry experience is used where credible Group experience is not available. A margin for adverse deviation is added by increasing or decreasing lapse rates; whichever is adverse, by 20% on Home Service business and 15% on Ordinary business. If future lapse rates were to differ by 10% from that assumed, the liability would increase by \$664,536 (2015: \$97,751) or decrease by \$898,927 (2015: \$151,861).

*(Continued)*

(iv) **Expenses**

Expenses are based on best estimates of Group experience. Expenses are increased 10% as a margin for adverse deviation. Expenses are assumed to increase annually at a rate of 2.0% (2015: 2.25%) initially, decreasing to 1.75% (2015: 1.75%) over 20 years. If future expenses were to differ by 10% from that assumed, the liability would increase by \$3,831,005 (2015: \$3,111,648) or decrease by \$3,792,080 (2015: \$3,078,158).

(v) **Ongoing Review**

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

(vi) **Margins for Adverse Deviation Assumptions**

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize 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 recognized on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

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

**a. Short-term insurance contracts:**

	<b>2016</b>	<b>2015</b>
Liabilities at beginning of year	\$ 7,456,433	\$ 5,796,077
Change in Data, Methods, and Assumptions	(23,047)	(293)
Usual change in In-Force Business and New Business	<u>(1,460,927)</u>	<u>1,660,649</u>
Liabilities at end of year	<u>\$ 5,972,459</u>	<u>\$ 7,456,433</u>

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

	<b>2016</b>	<b>2015</b>
Liabilities at beginning of year	\$ 61,510,877	\$ 58,561,920
Changes in Data, Methods, and Assumptions	3,782,893	(2,476,632)
New Business	(3,061,009)	(2,173,328)
Usual change in In-Force Business	<u>7,720,960</u>	<u>7,598,917</u>
Liabilities at end of year	<u>\$ 69,953,721</u>	<u>\$ 61,510,877</u>

(Continued)

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

	<b>2016</b>	<b>2015</b>
Liabilities at beginning of year	\$ 86,416,035	\$ 80,912,927
Changes in Data, Methods, and Assumptions	(2,403,344)	589,571
New Business	5,294,915	3,578,510
Usual change in In-Force Business	<u>2,326,275</u>	<u>1,335,027</u>
Liabilities at end of year	<u>\$ 91,633,881</u>	<u>\$ 86,416,035</u>

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

	<b>2016</b>	<b>2015</b>
Liabilities at beginning of year	\$ 23,226,713	\$ 21,607,069
Changes in Data, Methods, and Assumptions	1,650,854	488,354
New Business	(144,323)	(132,910)
Usual change in In-Force Business	<u>1,019,417</u>	<u>1,264,200</u>
Liabilities at end of year	<u>\$ 25,752,661</u>	<u>\$ 23,226,713</u>

Long term insurance contracts with DPF are not measured at fair value due to the lack of a reliable basis for measuring it.

<b>Total for all lines of businesses</b>	<b>2016</b>	<b>2015</b>
Liabilities at beginning of year	\$178,610,058	\$166,877,993
Changes in Data, Methods, and Assumptions	3,007,356	(1,399,000)
New Business	2,089,583	1,272,272
Usual change in In-Force Business	<u>9,605,725</u>	<u>11,858,793</u>
Liabilities at end of year	<u>\$193,312,722</u>	<u>\$178,610,058</u>

(Concluded)

## 11. OTHER POLICYHOLDERS' FUNDS

Other policyholders' funds are comprised of the following:

	<b>2016</b>	<b>2015</b>
Benefits payable to policyholders	\$ 13,446,141	\$ 13,770,768
Accrued policyholder dividends	3,440,169	3,167,451
Advance premiums	<u>752,131</u>	<u>1,332,265</u>
	<u>\$ 17,638,441</u>	<u>\$ 18,270,484</u>

## 12. PAYABLES AND ACCRUALS

Payables and accruals are comprised of the following:

	<b>2016</b>	<b>2015</b>
General payables and accruals	\$ 5,374,689	\$ 4,523,933
Client deposits	5,130,088	3,110,911
Employee liabilities	2,986,277	2,003,985
Reinsurance payable	<u>971,670</u>	<u>1,223,615</u>
	<u>\$ 14,462,724</u>	<u>\$ 10,862,444</u>

## 13. BANK OVERDRAFT FACILITIES

The Group has bank overdraft facilities of \$250,000 (2015: \$250,000). Amounts utilized under the facilities attract interest at Nassau prime plus 1.5%.

#### 14. REVALUATION RESERVE

Revaluation reserve is comprised of the following:

	Financial Investment Assets <u>Revaluation</u>	Fixed Assets <u>Revaluation</u>	Total Revaluation <u>Reserve</u>
<b>Balance as of December 31, 2014</b>	\$ 193,980	\$14,863,934	\$15,057,914
Adjustment to fair value of investment in equities and fixed assets	<u>881,458</u>	<u>-</u>	<u>881,458</u>
<b>Balance as of December 31, 2015</b>	1,075,438	14,863,934	15,939,372
Realized loss reclassified to profit and loss	63,800	-	63,800
Unrealized gains on available-for-sale investments	<u>569,620</u>	<u>-</u>	<u>569,620</u>
<b>Balance as of December 31, 2016</b>	<u>\$ 1,708,858</u>	<u>\$14,863,934</u>	<u>\$16,572,792</u>

#### 15. SHARE CAPITAL

The Group's share capital is comprised as follows:

	Variable Rate Cumulative Redeemable Preference Shares of \$1,000 each par value		Ordinary Shares of \$0.20 each par value	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Authorized	<u>10,000</u>	<u>10,000</u>	<u>15,000,000</u>	<u>15,000,000</u>
Issued and fully paid	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Shares outstanding at beginning of year	<u>10,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Shares outstanding at end of year	<u>10,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000,000</u>

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

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

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

## 16. NET PREMIUM INCOME

Net premium income is comprised of:

	<b>2016</b>	<b>2015</b>
Short-term insurance contracts	\$ 71,233,291	\$ 71,686,182
Long-term insurance contracts with fixed and guaranteed terms	20,804,462	19,331,819
Long-term insurance contracts without fixed and guaranteed terms	6,001,680	5,677,943
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	<u>3,030,201</u>	<u>3,186,314</u>
Premium revenue arising from insurance contracts issued	101,069,634	99,882,258
Premiums ceded for short-term and long-term contracts to reinsurers	<u>(10,316,803)</u>	<u>(9,638,363)</u>
	<u>\$ 90,752,831</u>	<u>\$ 90,243,895</u>

## 17. POLICYHOLDERS' BENEFITS

Policyholders' benefits for the year ended December 31, 2016 by insurance contracts were as follows:

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Short-term insurance contracts	\$44,723,985	\$ (3,370,195)	\$41,353,790	\$45,773,731	\$ (3,475,791)	\$42,297,940
Long-term insurance contracts with fixed and guaranteed terms	7,025,171	(1,543,427)	5,481,744	8,768,495	(2,049,628)	6,718,867
Long-term insurance contracts without fixed and guaranteed terms	11,571,439	-	11,571,439	12,092,205	-	12,092,205
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	<u>2,943,413</u>	<u>-</u>	<u>2,943,413</u>	<u>2,594,695</u>	<u>-</u>	<u>2,594,695</u>
	<u>\$66,264,008</u>	<u>\$ (4,913,622)</u>	<u>\$61,350,386</u>	<u>\$69,229,126</u>	<u>\$ (5,525,419)</u>	<u>\$63,703,707</u>

## 18. OPERATING LEASES

The Group leases certain office premises under non-cancellable operating leases. Future minimum rental commitments as of December 31, 2016 are as follows:

	<b>2016</b>	<b>2015</b>
Up to 1 year	\$ 93,601	\$ 89,007
1 year to 5 years	<u>374,405</u>	<u>356,029</u>
	<u>\$ 468,006</u>	<u>\$ 445,036</u>

## 19. TAXATION

There are no corporate, income or capital gains taxes levied in The Bahamas and the Group, therefore, pays no taxes on its profit or loss. However, taxes based on gross premium income, levied at 3%, for the year ended December 31, 2016 amounted to \$3,032,089 (2015: \$2,996,468) and is included within operating expenses in the consolidated statement of profit or loss and other comprehensive income.

The Group is also subject to Value Added Tax (“VAT”) on taxable supplies at a standard rate of 7.5%. The Group is eligible for input tax deductions based on an apportionment formula based on the premiums for standard rated taxable and exempt supplies. VAT incurred by the Group in excess of the input tax deductions is included in operating expenses in the consolidated statement of profit and loss and other comprehensive income.

## 20. PENSION PLAN

The Group’s pension costs, net of forfeitures in respect to the Plan for the year ended December 31, 2016, amounted to \$768,335 (2015: \$143,966) and is included in operating expenses in the consolidated statement of profit or loss and other comprehensive income.

## 21. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments to extend credit under mortgage loan agreements amounted to \$2,254,151 as of December 31, 2016 (2015: \$3,662,747).

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

The Group is contingently liable for \$5,000 (2015: \$5,000) in customs bonds and customs guarantees.

Prior to year-end, an agreement has been entered into in respect of commitments for capital projects. The commitments not provided in these consolidated financial statements total \$3.4 million.

## 22. RELATED PARTY BALANCES AND TRANSACTIONS

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note.

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

	<b>2016</b>	<b>2015</b>
<b><i>Related party balances:</i></b>		
Non-controlling interests	<u>\$ 18,986,519</u>	<u>\$ 17,355,123</u>
<b><i>Related party transactions:</i></b>		
Post-employment benefits	<u>\$ 17,886</u>	<u>\$ 23,919</u>
<b><i>Related party balances with Sagicor Life:</i></b>		
Receivables and other assets	<u>\$ 666,357</u>	<u>\$ 730,784</u>
Payables and accruals	<u>\$ 635,074</u>	<u>\$ 741,940</u>
<b><i>Related party transactions with Sagicor Life:</i></b>		
Premiums ceded to reinsurer	<u>\$ 4,100,259</u>	<u>\$ 4,203,565</u>
Reinsurance recoveries	<u>\$ 961,207</u>	<u>\$ 777,152</u>
Management fees	<u>\$ 132,000</u>	<u>\$ 132,000</u>
<b><i>Compensation of key management personnel:</i></b>		
	<b>2016</b>	<b>2015</b>
Salaries and other short-term employee benefits	\$ 3,129,004	\$ 2,366,549
Commissions	<u>361,736</u>	<u>319,900</u>
	<u>\$ 3,490,740</u>	<u>\$ 2,686,449</u>
<b><i>Directors' remuneration:</i></b>		

In 2016, the total remuneration of the directors was \$460,250 (2015: \$314,500).

***Employees' incentive plan:***

The Group sponsors a plan as an on-going incentive system for its key employees. The plan holds 1,900 shares (2015: 1,900 shares) of the Group and these shares are awarded to the plan participants on an annual basis for services rendered in the previous year or as special awards for a promotion or upon hiring at the executive level. The Group makes cash awards as the need arises to the plan and the plan purchases the shares as needed on the open market at market value. The shares vest over a period of years, depending on the type of award granted.

**23. POST-RETIREMENT MEDICAL BENEFIT**

The Group introduced a post-retirement medical plan on January 1, 1999 for employees who retire after that date. Employees at age 65 or older with 10 or more years of service to the Group are eligible for subsidized post-retirement medical, dental and vision benefits. The Group's contributions will be provided as premium payments are due, for retired participants. Retirees are assumed to pay the full retiree costs, less the Group's subsidy.

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 Group set the contributions to a fixed dollar amount equivalent to the 2014 subsidy and eliminated the dental and vision subsidy in future periods.

The most recent actuarial valuation was carried out by Towers Watson. 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.

Amounts recognized in the consolidated statement of profit or loss and other comprehensive income consists of:

	<b>Other Postemployment Benefits</b>	
	<b>2016</b>	<b>2015</b>
<b>Components of benefit cost recognized in profit or loss and other comprehensive income:</b>		
Current service cost	\$ 40,223	\$ 38,307
Interest cost	32,767	30,766
Actuarial loss	-	-
Past service cost recognized	-	-
Net benefit cost in recognized in profit or loss and other comprehensive income	<u>\$ 72,990</u>	<u>\$ 69,073</u>

*(Continued)*

	2016	2015
<b>Components of benefit cost recognized in other comprehensive income:</b>		
Remeasurement on the defined benefit liability:		
Actuarial loss (gain) due to experience	\$ 192,038	\$ 14,172
Actuarial gain due to demographic assumption changes	-	-
Actuarial loss due to financial assumption changes	-	-
	<u>          </u>	<u>          </u>
Actuarial gain on DBO	<u>\$ 192,038</u>	<u>\$ 14,172</u>
	<b>2016</b>	<b>2015</b>
<b>Total benefit cost recognized in profit or loss and other comprehensive income:</b>		
Cost recognized in profit or loss	\$ 72,990	\$ 69,073
Remeasurement effects recognized in other comprehensive income	<u>192,038</u>	<u>14,172</u>
	<u>          </u>	<u>          </u>
Total benefit cost recognized in profit or loss and other comprehensive income	<u>\$ 265,028</u>	<u>\$ 83,245</u>

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

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

### Funded Status

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

	<b>Other Postemployment Benefits</b>	
	<u>2016</u>	<u>2015</u>
<b>Funded status, beginning of year</b>		
Benefit obligation, funded plans	\$ (840,336)	\$ (630,412)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Net amount recognized, end of year	<u>\$ (840,336)</u>	<u>\$ (630,412)</u>

*(Continued)*

Amounts recognized in the consolidated statement of financial position are as follows:

	<b>2016</b>	<b>2015</b>
Liabilities	<u>\$ (840,336)</u>	<u>\$ (630,412)</u>
	<b>Other Postemployment Benefits</b>	
	<b>2016</b>	<b>2015</b>
<b>Experience adjustments</b>		
DBO, end of year	<u>\$ (840,336)</u>	<u>\$ (630,412)</u>
Funded status	<u>\$ (840,336)</u>	<u>\$ (630,412)</u>
	<b>Other Postemployment Benefits</b>	
	<b>2016</b>	<b>2015</b>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contribution	55,104	45,154
Plan participant's contribution	<u>(55,104)</u>	<u>(45,154)</u>
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>

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

	<b>2016</b>	<b>2015</b>
Discount rate	5.00%	5.00%
Medical cost trend rate	5.00%	5.00%
Dental/Vision cost trend	0.00%	0.00%
Mortality	RP2000	RP2000

#### **Expected employer contributions**

The Group expects to contribute \$30,982 (2015: \$30,982) to the post-retirement benefits plan in 2016. This benefit is expected to be paid from corporate assets.

*(Concluded)*

## 24. EARNINGS PER ORDINARY SHARE

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

	2016	2015
Weighted average number of ordinary shares outstanding	10,000,000	10,000,000
Profit attributable to ordinary shareholders	<u>\$ 4,805,346</u>	<u>\$ 4,552,516</u>
Earnings per ordinary share	<u>\$ 0.48</u>	<u>\$ 0.46</u>

## 25. BUSINESS SEGMENTS

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

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

- *Life Insurance* - offers a range of ordinary life insurance and industrial life insurance.
- *Health Insurance* - offers a range of group medical, individual medical, sick and accident, and hospitalization insurance.
- *Other* - offers a range of services including investment management, pension management and administration, corporate advisory services, and mutual fund management.

Transactions between segments are carried out at arm's length. No inter-segment transactions occurred in 2016 and 2015. The revenue from external parties reported to Management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income. The amounts provided to Management with respect to total assets and liabilities are measured in a manner consistent with that in the consolidated statement of financial position. All activities of the Group are deemed to be operating within the same geographical area.

Segment profit represents the profit earned by each segment after allocation of central administration costs and salaries, investment income, and other gains and losses. This is the measure reported to Management for the purpose of assessment of segment performance. No single customer contributed 10% or more to the Group's revenue for both 2016 and 2015. All assets are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

*(Continued)*

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

	<b>2016</b>			
	(\$000)			
	<u>LIFE</u>	<u>HEALTH</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>INCOME</b>				
Net premium income	\$ 29,681	\$ 61,072	\$ -	\$ 90,753
Annuity deposits	12,224	-	-	12,224
Investment income	12,208	229	1,659	14,096
Other income	1,017	440	925	2,382
Total income	<u>55,130</u>	<u>61,741</u>	<u>2,584</u>	<u>119,455</u>
POLICYHOLDER BENEFITS	36,061	39,992	-	76,053
EXPENSES	<u>16,378</u>	<u>15,922</u>	<u>4,791</u>	<u>37,091</u>
	<u>52,439</u>	<u>55,914</u>	<u>4,791</u>	<u>113,144</u>
PROFIT (LOSS) FOR THE YEAR	<u>\$ 2,691</u>	<u>\$ 5,827</u>	<u>\$ (2,207)</u>	<u>\$ 6,311</u>
TOTAL ASSETS	<u>\$ 255,428</u>	<u>\$ 9,027</u>	<u>\$ 82,803</u>	<u>\$ 347,258</u>
TOTAL LIABILITIES	<u>\$ 219,131</u>	<u>\$ 7,731</u>	<u>\$ 6,532</u>	<u>\$ 233,394</u>
	<b>2015</b>			
	(\$000)			
	<u>LIFE</u>	<u>HEALTH</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>INCOME</b>				
Net premium income	\$ 28,571	\$ 61,673	\$ -	\$ 90,244
Annuity deposits	10,514	-	-	10,514
Investment income	10,890	326	2,625	13,841
Other income	767	166	934	1,867
Total income	<u>50,742</u>	<u>62,165</u>	<u>3,559</u>	<u>116,466</u>
POLICYHOLDER BENEFITS	32,045	43,391	-	75,436
EXPENSES	<u>15,249</u>	<u>14,516</u>	<u>4,372</u>	<u>34,137</u>
	<u>47,294</u>	<u>57,907</u>	<u>4,372</u>	<u>109,573</u>
PROFIT (LOSS) FOR THE YEAR	<u>\$ 3,448</u>	<u>\$ 4,257</u>	<u>\$ (813)</u>	<u>\$ 6,893</u>
TOTAL ASSETS	<u>\$ 236,523</u>	<u>\$ 9,934</u>	<u>\$ 78,079</u>	<u>\$ 324,536</u>
TOTAL LIABILITIES	<u>\$ 203,378</u>	<u>\$ 8,542</u>	<u>\$ 4,501</u>	<u>\$ 216,421</u>

(Concluded)

## 26. DIVIDENDS

Dividends to the Company's ordinary shareholders are recognized as a liability in the period in which they are declared by the Board of Directors. Dividends paid to ordinary shareholders of the Company totaled \$2,900,000 (2015: \$2,400,000) and represented \$0.29 per share (2015: \$0.24).

## 27. NON-CONTROLLING INTERESTS

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

The movement is as follows:

	<b>2016</b>	<b>2015</b>
Balance at beginning of year	\$ 31,017,543	\$ 26,048,393
Share of profit for the year	880,324	1,715,887
Additional non-controlling interests arising from net contributions from investors	<u>2,522,285</u>	<u>3,253,263</u>
Balance at end of year	<u>\$ 34,420,152</u>	<u>\$ 31,017,543</u>

## 28. SUBSIDIARIES

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

Name of Entity	Principal Activity	Place of Incorporation	Ownership Interest	
			2016	2015
Family Guardian Insurance Company Limited	Life & Health Insurance	The Bahamas	100%	100%
FG Financial Limited	Administration of Pension and Mutual Funds	The Bahamas	100%	100%
FG Capital Markets Limited	Investment Brokerage & Advisory	The Bahamas	100%	100%
FG Insurance Agents & Brokers Limited	General Insurance Agency	The Bahamas	100%	100%
BahamaHealth Insurance Brokers Limited	Health Insurance Administration	The Bahamas	100%	100%
FG Financial Fund Limited SAC:				
FG Financial Growth Fund	Mutual Fund	The Bahamas	18%	18%
FG Financial Preferred Income Fund	Mutual Fund	The Bahamas	16%	15%
FG Financial Diversified Fund	Mutual Fund	The Bahamas	15%	16%
FG Financial Global USD Bond Fund	Mutual Fund	The Bahamas	98%	98%

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information represents amounts before intragroup eliminations.

	<b>2016</b>	<b>2015</b>
Assets	<u>\$52,173,343</u>	<u>\$47,873,045</u>
Liabilities	<u>\$ 1,024,186</u>	<u>\$ 461,087</u>
Equity	<u>\$51,149,157</u>	<u>\$47,411,958</u>

## 29. SUBSEQUENT EVENT

On February 10, 2017, the Board of Directors declared a fourth quarter dividend of \$0.06 per share or \$600,000 to shareholders of record as of February 22, 2017 and paid March 1<sup>st</sup>, 2017.

\* \* \* \* \*

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**Graham Thompson & Company**

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**Auditors****Deloitte and Touche**

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**PriceWaterhouseCoopers**

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**Principal Bankers****First Caribbean International Bank (Bahamas)**

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**Royal Bank of Canada**

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**Reinsurers****Munich Reinsurance Company**

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**RGA Reinsurance Company**

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**Zurich American Insurance Company**

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**Swiss Re Life & Health Canada**

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 Pensions & Mutual Funds  
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## Family Guardian Financial Centre

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 Ordinary Life & Annuities  
 T 242-396-1400
- FG Insurance Agents & Brokers  
 Property & Casualty Insurance  
 T 242-396-1490
- BahamaHealth  
 Group Operations  
 P.O. Box SS19079  
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## Marathon District

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## Carmichael District

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## Eleuthera Office

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