

# **FAMILY GUARDIAN INSURANCE COMPANY LIMITED**

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## INDEPENDENT AUDITORS' REPORT

To the Board of  
Family Guardian Insurance Company Limited:

We have audited the accompanying financial statements of Family Guardian Insurance Company Limited (the "Company"), which comprise the statement of financial position as of December 31, 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

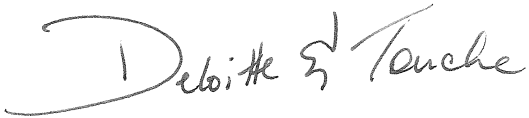
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Family Guardian Insurance Company Limited as of December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the date.

April 19, 2016

## **APPOINTED ACTUARY'S REPORT**

### **To the Board of Directors and Shareholders of Family Guardian Insurance Company Limited**

I have valued the actuarial liabilities and other policy liabilities of Family Guardian Insurance Company Limited for its statement of financial position at 31 December 2015 and the change in the statement of profit or loss and other comprehensive income for the year ended 31 December 2015 in accordance with generally accepted actuarial practice including selection of appropriate assumptions and methods.

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



Jean Mongrain,  
Fellow, Canadian Institute of Actuaries  
Fellow, Society of Actuaries  
Member, Caribbean Actuarial Association  
February 19, 2016

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015

(Expressed in Bahamian dollars)

	Notes	2015	2014
<b>ASSETS</b>			
Fair value through profit or loss			
- affiliate mutual funds	6	\$ 16,394,413	\$ 15,643,710
Available-for-sale	6, 26	11,206,038	10,324,580
Held-to-maturity	6, 26	118,416,800	109,662,267
Loans	6	<u>81,849,716</u>	<u>80,231,144</u>
Total financial investment assets		227,866,967	215,861,701
Cash and bank balances		5,493,294	5,745,449
Reinsurance assets	9	8,677,855	7,787,963
Receivables and other assets, net	7, 21	20,635,017	17,779,065
Property, plant and equipment, net	8	<u>11,352,958</u>	<u>10,804,268</u>
TOTAL ASSETS		<u>\$ 274,026,091</u>	<u>\$ 257,978,446</u>

(Continued)

See notes to financial statements.

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2015

(Expressed in Bahamian dollars)

	Notes	2015	2014
<b>LIABILITIES AND EQUITY</b>			
LIABILITIES:			
Reserves for future policyholders' benefits	9	\$ 187,287,913	\$ 174,665,956
Other policyholders' funds	10	<u>18,270,484</u>	<u>16,064,122</u>
Policy liabilities		205,558,397	190,730,078
Payables and accruals	11, 21, 22	<u>6,361,333</u>	<u>8,203,244</u>
Total liabilities		<u>211,919,730</u>	<u>198,933,322</u>
EQUITY:			
Ordinary shares	14	1,707,462	1,707,462
Share premium	14	11,401,314	11,401,314
Revaluation reserve	13	5,488,144	4,606,686
Retained earnings		<u>43,509,441</u>	<u>41,329,662</u>
Total equity		<u>62,106,361</u>	<u>59,045,124</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 274,026,091</u>	<u>\$ 257,978,446</u>


(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on April 11, 2016, and are signed on its behalf by:



Director



Director

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2015

(Expressed in Bahamian dollars)

	Notes	2015	2014
INCOME:			
Gross premium income		\$ 99,882,258	\$ 96,222,216
Premium ceded to reinsurers	15, 21	<u>(9,638,363)</u>	<u>(9,311,764)</u>
Net premium income		90,243,895	86,910,452
Annuity deposits		<u>10,514,190</u>	<u>11,853,689</u>
Net premium income and annuity deposits	15	100,758,085	98,764,141
Interest income	21	11,532,626	11,022,095
Dividend income		945,143	836,277
Other operating income	21	932,339	698,078
Unrealized gain on investment assets	6	447,581	532,400
Realized loss on sale of investment assets		<u>(867,922)</u>	<u>(349,550)</u>
Total income		<u>113,747,852</u>	<u>111,503,441</u>
BENEFITS AND EXPENSES:			
Benefits:			
Policyholders' benefits	16	69,229,126	68,819,840
Reinsurance recoveries	16, 21	<u>(5,525,419)</u>	<u>(6,152,955)</u>
Net policyholders' benefits		63,703,707	62,666,885
Increase in reserves for future policyholders' benefits	9	<u>11,732,065</u>	<u>9,498,285</u>
Total benefits		<u>75,435,772</u>	<u>72,165,170</u>

(Continued)

See notes to financial statements.

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2015

(Expressed in Bahamian dollars)

	Notes	2015	2014
Expenses:			
Operating expenses	17 - 19, 21, 22	\$ 18,840,011	\$ 18,080,420
Commissions	21	11,592,715	11,339,309
Depreciation expense	8	1,209,375	1,492,622
Bad debt expense, net	6, 7	<u>76,028</u>	<u>714,636</u>
Total expenses		<u>31,718,129</u>	<u>31,626,987</u>
Total benefits and expenses		<u>107,153,901</u>	<u>103,792,157</u>
PROFIT FOR THE YEAR	23	<u>6,593,951</u>	<u>7,711,284</u>
OTHER COMPREHENSIVE INCOME:			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net value of income on available-for-sale financial assets	6, 13	881,458	539,381
Revaluation of fixed assets	8, 13	-	979,077
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of defined benefit obligation	22	<u>(14,172)</u>	<u>(8,659)</u>
Total other comprehensive income		<u>867,286</u>	<u>1,509,799</u>
TOTAL COMPREHENSIVE INCOME		<u>\$ 7,461,237</u>	<u>\$ 9,221,083</u>

(Concluded)

See notes to financial statements.



# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2015

(Expressed in Bahamian dollars)

	<u>Notes</u>	Ordinary Shares (Note 14)	Share Premium (Note 14)	Revaluation Reserve (Note 13)	Retained Earnings	<u>Total</u>
<b>Balance as of December 31, 2013</b>		\$ 1,707,462	\$11,401,314	\$ 3,088,228	\$ 38,027,037	\$ 54,224,041
Profit for 2014		-	-	-	7,711,284	7,711,284
Other comprehensive income for 2014	13, 22	-	-	1,518,458	(8,659)	1,509,799
Dividends declared and paid - ordinary shares (\$2.58 per share)		-	-	-	(4,400,000)	(4,400,000)
<b>Balance as of December 31, 2014</b>		1,707,462	11,401,314	4,606,686	41,329,662	59,045,124
Profit for 2015		-	-	-	6,593,951	6,593,951
Other comprehensive income for 2015	13, 22	-	-	881,458	(14,172)	867,286
Dividends declared and paid - ordinary shares (\$2.58 per share)		-	-	-	(4,400,000)	(4,400,000)
<b>Balance as of December 31, 2015</b>		<u>\$ 1,707,462</u>	<u>\$11,401,314</u>	<u>\$ 5,488,144</u>	<u>\$43,509,441</u>	<u>\$ 62,106,361</u>

See notes to financial statements.

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2015

*(Expressed in Bahamian dollars)*

	Notes	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit for the year		\$ 6,593,951	\$ 7,711,284
Adjustments for:			
Depreciation expense	8	1,209,375	1,492,622
Unrealized gain on investment assets	6	(447,581)	(532,400)
Realized loss on sale of investment assets		867,922	349,550
Increase in reinsurance assets		(889,892)	(651,598)
Change in mortgage provision	6	(6,891)	331,148
Change in reserve for policyholders' benefits		12,621,957	10,149,883
Interest income		(11,532,626)	(11,022,095)
Dividend income		<u>(945,143)</u>	<u>(836,277)</u>
Operating profit before working capital changes		7,471,072	6,992,117
Increase in receivables and other assets		(2,855,952)	(3,595,106)
(Decrease) increase in payables and accruals		(1,856,083)	467,791
Increase in other policyholders' funds		<u>2,206,362</u>	<u>2,958,291</u>
Net cash from operating activities		<u>4,965,399</u>	<u>6,823,093</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net proceeds from bank term deposits greater than three months		3,536,900	9,606,653
Proceeds from redemption of (purchase of) corporate bonds		(3,755,316)	939,000
Net purchase of preferred shares, held-to-maturity	6	(1,250,500)	(2,851,000)
Purchase of Government bonds and notes	6	(7,154,900)	(10,965,400)
Net subscription in affiliate mutual funds	6	-	(9,741,094)
Pension forfeitures reinvested	6	(303,122)	-
Net policy loans issued		(668,919)	(843,305)
Net mortgage loans issued		(903,171)	(572,446)
Net purchase of property, plant and equipment	8	(1,763,711)	(1,516,256)
Interest received		10,500,042	10,471,503
Dividends received		<u>945,143</u>	<u>836,277</u>
Net cash used in investing activities		<u>(817,554)</u>	<u>(4,636,068)</u>

*(Continued)*

See notes to financial statements.

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2015

*(Expressed in Bahamian dollars)*

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	<b>2015</b>	<b>2014</b>
CASH FLOWS FROM FINANCING ACTIVITY:		
Dividends paid on ordinary shares	\$ (4,400,000)	\$ (4,400,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(252,155)	(2,212,975)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>5,745,449</u>	<u>7,958,424</u>
End of year	<u>\$ 5,493,294</u>	<u>\$ 5,745,449</u>

*(Concluded)*

See notes to financial statements.

# FAMILY GUARDIAN INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

*(Expressed in Bahamian dollars)*

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### 1. GENERAL

Family Guardian Insurance Company Limited (the “Company”) is incorporated under the laws of the Commonwealth of The Bahamas to sell life insurance, health insurance and annuities and is a wholly owned subsidiary of FamGuard Corporation Limited (“FamGuard”), also incorporated in The Bahamas.

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)

In the current year, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2015.

#### *New and amendments to standards*

IAS 19                      Defined Benefit Plans: Employee Contributions

The adoption of this standard had no material impact on the Company’s financial statements.

At the date of authorization of these financial statements, the following relevant standards and interpretations were in issue but not yet effective:

#### *New standards*

IFRS 9                      Financial Instruments (effective for annual periods beginning on or after January 1, 2018)  
IFRS 14                      Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016)  
IFRS 15                      Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018)  
IFRS 16                      Leases (effective for annual periods beginning on or after January 1, 2019)

#### *Amendments to standards*

IFRS 10 and IAS 28      Sale of Contribution of Assets between an Investor and its Associates or Joint Venture

IFRS 10, 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
IAS 1	Disclosure Initiatives
IAS 16, 38	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16, 41	Agriculture: Bearer Plants
IAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRS's 2012-2014 Cycle	

***Annual improvements to IFRS 2010 to 2012 cycle***

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operation Segments
IFRS 13	Fair Value Measurement
IAS 16	Property, Plant and Equipment
IAS 24	Related Party Disclosures
IAS 38	Intangible Assets

***Annual improvements to IFRS 2011 to 2013 cycle***

IFRS 3	Business Combinations
IFRS 13	Fair Value Measurement
IAS 40	Investment Property

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance* - The financial statements have been prepared in accordance with International Financial Reporting Standards and the interpretations adopted by the IASB.
- b. Basis of preparation* - The 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 Company 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 financial statements is determined on such basis.

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

The accounting policies set out below have been applied consistently by the Company.

- c. Cash and cash equivalents* - For purposes of the cash flow statement, cash and cash equivalents consist of cash on hand, demand balances with banks and bank term deposits with original contractual maturities of three months or less.
- d. 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.
- e. Reserves for insurance contracts* - The reserves for insurance contracts in force at the statement of financial position date are calculated according to accepted standards of actuarial principles and are determined by the Company's Appointed Actuary.

The Company calculates the majority of its liabilities for individual life insurance policies using the Canadian Policy Premium Method ("PPM"). Actuarial liabilities under PPM are calculated as the present value of future benefits and expenses, less the present value of future policy premiums. The calculation of these policy reserves is based on assumptions as to future rates for mortality and morbidity, investment yields, policy lapses and expenses, which contain margins for adverse deviations.

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

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 Company, comprise unearned premiums plus a contingency reserve for claims.

- f. 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 Company and the cost of the item can be measured reliably.

All other costs are charged to the 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 statement of comprehensive income.

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

An assets' 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. These are included in the 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.

***g. Financial investment assets:***

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

(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 Company'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 Company commits to purchase or sell the equity. Investments in equities are initially recognized at cost and subsequently re-measured at fair value.

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 Company 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 category are presented in the statement of profit or loss and 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 category 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 determines 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.

**(iv) *Loans and receivables***

A financial investment asset is classified at amortized cost 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 Company 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.

- h. *Loans*** - Policy loans arise when the Company extends money to the policy holder. 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 Company provides money directly to a borrower with no intention of trading the receivable. Mortgage loans are secured by first demand mortgages and provide for monthly repayments at variable interest rates over periods of up to twenty-five 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 non-current mortgage loans is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the mortgage loan. Significant financial difficulties of the borrower, probability that the borrower will enter financial 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 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 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.

At each valuation date, the Appointed Actuary reviews the assumptions in performing the valuation of the reserves for future policyholder benefits. The Appointed Actuary includes a provision for asset default in the modeling of cash flows, based on industry and Company experience, and includes specific margins for assets backing the actuarial liabilities, including investment assets.

*i. Foreign currency translation:*

- (i) Functional and presentation currency* - Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency), the Bahamian dollar. The financial statements are presented in Bahamian dollars, which is also the Company's presentation currency.
- (ii) Transactions and balances* - 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 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 statement of profit or loss and other comprehensive income.

- j. Impairment of assets* - The Company assesses at each 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 statement of profit or loss and other comprehensive income.

- k. Reinsurance transactions* - In the normal course of its life and health insurance business, the Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Contracts entered into that meet the classification requirements for insurance contracts in Note 3(t) are classified as reinsurance contracts held. Under the excess coverage contracts, the Company retains a range of \$75,000 to \$100,000 (2014: \$75,000 to \$100,000) coverage per individual life and individual accidental death benefit. Under the quota share contracts, the Company retains 50% of the face amount per individual life and accidental death benefit 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 Company 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 statement of financial position.

- l. Non-premium revenue and expense recognition* - Revenue is measured at the fair value of the consideration received or receivable. Non-premium revenue and expenses are 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 Company 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 Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

- m. 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 statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.
- n. Employee benefits - pension obligations* - The Company has a defined contribution pension plan for eligible agents and employees whereby the Company pays contributions to a pension plan separately administered by the Company. The Company has no further payment obligations once the contributions have been paid. The plan requires participants to contribute 5% of their gross earnings and commissions and the Company contributes 4% of eligible earnings. The Company's contributions to the defined contribution pension plan are recognized in the statement of profit or loss and other comprehensive income in the year to which they relate.
- o. 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 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 Company presents the first two components of defined benefit costs in profit or loss in operating expenses. Curtailment gains and losses are accounted for as past service costs.

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

- p. Share capital* - Shares are classified as equity when there is no obligation to transfer cash or other assets.

- q. 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 Company and held as treasury shares. There are no dilutive transactions that would have an impact to earnings per share.
- r. Dividend distribution* - Dividend distribution to the Company's shareholders are recognized in the financial statements in the year in which the dividends are declared by the Board of Directors.
- s. Insurance contracts - classification* - The Company issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

A number of insurance contracts contain a 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 Company; 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 Company.

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

- t. 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 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 statement of financial position date even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported.

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

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

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

Liabilities for universal life policies, including unit-linked contracts, 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 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 deviation 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 Company. As the Company declares the bonus to be paid, it is credited to the individual policyholders.

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

The amount 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.

- v. *Related parties*** - Related parties are defined as follows:
- (i) Controlling shareholders;
  - (ii) Subsidiaries;
  - (iii) Associates;
  - (iv) Individuals owning, directly or indirectly, an interest in the voting power that gives them significant influence over the enterprise, i.e. normally more than 20% of shares (plus close family members of such individuals);
  - (v) Key management personnel - persons who have authority for planning, directing and controlling the enterprise (plus close family members of such individuals);
  - (vi) Directors and
  - (vii) Enterprises owned by the individuals described in (iv) and (v).
- w. *Segments*** - For the purposes of segment reporting, the products and services provided by the Company are subject to similar risks and returns. There are no distinguishable geographical segments, as the geographical areas in which the Company 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.
- x. *Commission expense*** - Commission expense is comprised of commissions earned by the Company's sales force, external agents and brokers on insurance and investment products sold. Commission expense is recognized when payable.

- y. ***Policy dividends on deposits*** - Policy dividends on deposits comprises dividends declared on policies, together with accrued interest, but not withdrawn from the Company.
- z. ***Taxation*** - The Company is subject to tax on gross premium income at a rate of 3%. There are no taxes levied on the Company, 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 Company's accounting policies* - In the process of applying the Company's accounting policies, which are described above, judgments made by management that have the most significant effect on the amounts recognized in the financial statements are discussed in the relevant notes below.

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

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

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



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

**b. *Impairment***

The Company has made significant investments in tangible 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.

**c. *Depreciation***

Depreciation is based on management estimates of the future useful life of property, plant and equipment and on the revaluation analysis performed triennially. Estimates may change due to technological developments, competition, changes in market conditions, the revaluation analysis and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property, plant and equipment periodically, taking into consideration the factors mentioned above and all other important factors.

Estimated useful life for similar types of assets may vary to local factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate, etc. In the case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

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

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

***e. Legal proceedings, claims and regulatory discussions***

The Company is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Company to increase or decrease the amount the Company has accrued for any matter, or accrue for a matter that has not been previously accrued because it was not considered probable, or a reasonable estimate could not be made.

***f. Loan loss provision***

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

***g. Held-to-maturity financial investment assets***

Management has reviewed the Company's held-to-maturity financial investment assets in the light of its capital maintenance and liquidity requirements and has confirmed the Company's positive intention and ability to hold those assets to maturity.

***h. Available-for-sale financial assets***

The Company determines that available-for-sale 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 Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

*i. Retirement benefit obligation*

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

Other key assumptions for retirement benefit obligations include medical, dental and vision cost trend rates and mortality rates. Medical rates are determined by the current year's average per capita costs for all participants. 2015 average per capita costs for retirees was estimated by age groupings.

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

*j. Classification of insurance contracts*

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

## 5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

### a. Fair value of financial assets and liabilities

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

In the opinion of management, the estimated fair 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 statement of financial position date were not materially different from their carrying values due to their short term nature.

The following table depicts the classification of financial assets (excluding cash and deposits):

	<b>2015</b>				
	<b>FVTPL</b>	<b>Loans and Receivables</b>	<b>Held-To- Maturity</b>	<b>Available- For-Sale</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>					
Financial investment assets	\$ 16,394,413	\$ 81,849,716	\$ 118,416,800	\$ 11,206,038	\$ 227,866,967
All other financial assets	-	-	-	-	-
	<u>\$ 16,394,413</u>	<u>\$ 81,849,716</u>	<u>\$ 118,416,800</u>	<u>\$ 11,206,038</u>	<u>\$ 227,866,967</u>
	<b>2014</b>				
	<b>FVTPL</b>	<b>Loans and Receivables</b>	<b>Held-To- Maturity</b>	<b>Available- For-Sale</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>					
Financial investment assets	\$ 15,643,710	\$ 80,231,144	\$ 109,662,267	\$ 10,324,580	\$ 215,861,701
All other financial assets	-	-	-	-	-
	<u>\$ 15,643,710</u>	<u>\$ 80,231,144</u>	<u>\$ 109,662,267</u>	<u>\$ 10,324,580</u>	<u>\$ 215,861,701</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.

*(Continued)*

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).

	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
FVTPL	\$ 16,394,413	\$ -	\$ -	\$ 16,394,413
Available-for-sale	<u>11,206,038</u>	<u>-</u>	<u>-</u>	<u>11,206,038</u>
	<u>\$ 27,600,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,600,451</u>
	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
FVTPL	\$ 15,643,710	\$ -	\$ -	\$ 15,643,710
Available-for-sale	<u>10,324,580</u>	<u>-</u>	<u>-</u>	<u>10,324,580</u>
	<u>\$ 25,968,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,968,290</u>

There were no transfers between the various levels during the year.

**b. Insurance risk**

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

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

*(Continued)*

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

The Company seeks to limit its exposure to loss on any single insured and to recover benefits paid, by ceding premiums to reinsurers under excess coverage and quota share contracts. Under the excess coverage contracts, the Company retains a range of \$75,000 to \$100,000 (2014: \$75,000 to \$100,000) coverage per individual life and individual accidental death benefit. Under the quota share contracts, the Company retains 50% of the face amount per individual life and accidental death benefit 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 in eating, smoking and exercise habits resulting in earlier or more claims than expected.

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

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

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

\$	2015	2014
0 - 9,999	\$ 114,788,830	\$ 115,862,770
10,000 - 24,999	303,994,821	306,247,667
25,000 - 49,999	103,971,898	111,307,796
50,000 and over	<u>1,001,072,263</u>	<u>1,027,125,484</u>
	<u>\$1,523,827,812</u>	<u>\$1,560,543,717</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 statement of financial position on December 31, 2015. (All amounts are in \$000).

*(Continued)*

	Year claim is incurred										Total
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Estimate of ultimate claims:											
End of year incurred	\$ 15,372	\$ 16,632	\$ 24,044	\$ 36,431	\$ 38,848	\$ 37,645	\$ 34,607	\$ 32,832	\$ 34,718	\$ 41,712	\$ 312,841
One year later	\$ 14,497	\$ 15,767	\$ 23,552	\$ 36,534	\$ 38,407	\$ 36,260	\$ 33,963	\$ 31,617	\$ 33,682		
Two years later	\$ 14,521	\$ 15,703	\$ 23,556	\$ 36,542	\$ 38,443	\$ 36,308	\$ 34,157	\$ 31,496	\$ -		
Three years later	\$ 14,516	\$ 15,694	\$ 23,564	\$ 36,590	\$ 38,482	\$ 36,294	\$ 34,077	\$ -	\$ -		
Four years later	\$ 14,514	\$ 15,695	\$ 23,597	\$ 36,617	\$ 38,475	\$ 36,289	\$ -	\$ -	\$ -		
Current (December 31, 2015) estimate of ultimate claims	\$ 14,514	\$ 15,695	\$ 23,597	\$ 36,617	\$ 38,475	\$ 36,289	\$ 34,077	\$ 31,496	\$ 33,682	\$ 41,712	\$ 306,154
Cumulative payments (through December 31, 2015)	14,514	15,695	23,597	36,617	38,475	36,287	34,075	31,521	33,736	35,868	300,385
Current (December 31, 2015) statement of financial position liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 2	\$ (25)	\$ (54)	\$ 5,844	\$ 5,769

**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 Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

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

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

Loans and held-to-maturity financial assets are subject to floating interest rates. If future interest rates were increased or decreased by 1%, interest income in the statement of profit or loss and other comprehensive income would increase or decrease by \$1,697,007 (2014: \$1,598,526).

**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 Company 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 \$849,665 (2014: \$761,519) and profit or loss of \$1,639,441 (2014: \$1,564,371). Management mitigates this risk by diversification of its portfolio.

(Continued)

*e. Credit risk*

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

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

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

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

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

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

	<b>2015</b>					
	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
<b>Total</b>	<b>\$66,436,921</b>	<b>\$ 6,372,331</b>	<b>\$16,289,325</b>	<b>\$38,212,445</b>	<b>\$318,744,537</b>	<b>\$446,055,559</b>

*(Continued)*



	2014					
	Not Classified	Up to 1 year	1 to 5 years	6 to 10 years	over 10 years	Total
Short-term insurance contracts	\$ -	\$ 6,506,196	\$ -	\$ -	\$ -	\$ 6,506,196
Long-term with fixed and guaranteed terms	1,282,660	(2,891,914)	3,619,633	18,696,210	210,463,625	231,170,214
Long-term without fixed and guaranteed terms	61,817,331	1,131,198	6,789,455	8,607,842	29,405,494	107,751,320
Long-term without fixed and guaranteed terms and with DPF	-	639,925	4,372,238	7,942,239	65,236,833	78,191,235
Total	<u>\$63,099,991</u>	<u>\$ 5,385,405</u>	<u>\$14,781,326</u>	<u>\$35,246,291</u>	<u>\$305,105,952</u>	<u>\$423,618,965</u>

Amounts not classified consist mostly of deferred annuity fund balances and amounts held for unclaimed endowments past their maturity date.

**g. Capital risk management**

The Company 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 Company’s overall strategy remains unchanged from 2014.

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

In addition to the solvency margins required by the regulators, the Company measures its solvency ratio using Canadian reserve methodologies and solvency standards as measured by the Minimum Continuity Capital and Surplus Requirement (“MCCSR”). At December 31, 2015 the Company’s MCCSR ratio exceeded the required target of 150%.

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

**h. Operational risk**

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

*(Concluded)*

## 6. FINANCIAL INVESTMENT ASSETS

Financial investment assets comprise the following:

	<b>2015</b>	<b>2014</b>
<b>(a) Fair value through profit or loss (FVTPL):</b>		
At beginning of year	\$ 15,643,710	\$ 5,370,216
Subscriptions in affiliate mutual funds	-	9,741,094
Pension forfeitures reinvested	303,122	-
Change in unrealized gain on investment in equities through profit or loss - affiliate mutual funds	<u>447,581</u>	<u>532,400</u>
At end of year	<u>\$ 16,394,413</u>	<u>\$ 15,643,710</u>
<b>(b) Available-for-sale (AFS):</b>		
Investment in equities at beginning of year	\$ 7,615,189	\$ 7,075,808
Change in unrealized gain on investment in equities through revaluation reserve	<u>881,458</u>	<u>539,381</u>
	<u>8,496,647</u>	<u>7,615,189</u>
Investment in redeemable preferred shares	2,670,000	2,670,000
Add: Accrued interest receivable	<u>39,391</u>	<u>39,391</u>
	<u>2,709,391</u>	<u>2,709,391</u>
Total financial investment assets available-for-sale	<u>\$ 11,206,038</u>	<u>\$ 10,324,580</u>
<b>(c) Held-to-maturity (HTM):</b>		
Bahamas Government bonds	\$ 70,789,000	\$ 63,634,100
Bahamas Mortgage Corporation bonds	9,300,000	9,300,000
Education Loan Authority bonds	6,300,000	6,300,000
Bahamas Government notes	4,550,000	4,550,000
Clifton Heritage bonds	2,004,800	2,004,800
Bridge Authority bonds	<u>307,400</u>	<u>307,400</u>
Government bonds, at amortized cost	93,251,200	86,096,300
Add: Accrued interest receivable	<u>1,317,503</u>	<u>1,269,171</u>
	<u>94,568,703</u>	<u>87,365,471</u>
Redeemable preferred shares, at amortized cost	8,743,500	7,493,000
Add: Accrued interest receivable	<u>40,974</u>	<u>40,241</u>
	<u>8,784,474</u>	<u>7,533,241</u>
Corporate bonds, at amortized cost	10,536,316	6,781,000
Add: Accrued interest receivable	<u>102,978</u>	<u>94,683</u>
	<u>10,639,294</u>	<u>6,875,683</u>
Other bank term deposits, at amortized cost	4,000,000	7,536,900
Add: Accrued interest receivable	<u>424,329</u>	<u>350,972</u>
	<u>4,424,329</u>	<u>7,887,872</u>
Total financial investment assets held to maturity	<u>118,416,800</u>	<u>109,662,267</u>

(Continued)

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

Held-to-maturity securities have interest rates ranging from 1.75% to 8.5% per annum (2014: 3.15% to 8.5%) and scheduled maturities between 2016 and 2044 (2014: 2015 and 2037).

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 Company opted to reclassify its investment in equities at that date from fair value through profit or loss to available-for-sale with effect from July 1, 2008. The carrying value of the investments in the reclassified equities is equivalent to the fair value and as at December 31, 2015 is \$7,582,177 (2014: \$6,803,430). 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 \$1,156,420 gain (2014: \$377,673 gain) taking into consideration impairment losses previously transferred to profit or loss.

	<b>2015</b>	<b>2014</b>
<b>(d) Loans:</b>		
(i) Policy loans comprise:		
Policy loans	\$ 11,362,278	\$ 11,121,227
Automatic premium loans	<u>3,220,524</u>	<u>2,792,656</u>
	14,582,802	13,913,883
Add: Accrued interest receivable	<u>757,640</u>	<u>705,852</u>
	<u>15,340,442</u>	<u>14,619,735</u>
(ii) Mortgage loans comprise:		
Commercial:		
Current	7,849,370	8,268,040
Over 90 days	1,160,642	1,497,455
Residential:		
Current	55,764,720	51,080,868
Over 90 days	<u>3,550,370</u>	<u>6,575,568</u>
	68,325,102	67,421,931
Less: Specific provision for credit risk	(1,782,389)	(1,789,280)
Deferred commitment fees	<u>(404,499)</u>	<u>(369,407)</u>
	66,138,214	65,263,244
Add: Accrued interest receivable	<u>371,060</u>	<u>348,165</u>
	<u>66,509,274</u>	<u>65,611,409</u>
Total loans	<u>\$ 81,849,716</u>	<u>\$ 80,231,144</u>

*(Continued)*

Policy loans and automatic premium loans (APLs) are allowed on Ordinary Life policies. An interest rate ranging from 0% to 11% (2014: 0% to 11%) per annum is charged on policy loans and APLs.

Movements in loan loss provisions are as follows:

	<b>Specific Provision</b>
Balance as of December 31, 2013	\$ 1,458,132
Bad debt expense	<u>331,148</u>
Balance as of December 31, 2014	1,789,280
Bad debt expense	967,861
Release of bad debt	<u>(974,752)</u>
Balance as of December 31, 2015	<u>\$ 1,782,389</u>

An interest rate of 5.75% per annum (2014: 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 8.50% in the amount of \$5,779,266 (2014: \$6,076,713). Related party interest income from mortgages for the year ended December 31, 2015 is \$424,846 (2014: \$429,323) and related party interest receivable on mortgages as of December 31, 2015 is \$31,703 (2014: \$34,312).

As of December 31, 2015, the Company had non-performing mortgage loans of \$4,711,012 (2014: \$8,073,023) for which interest of \$1,661,124 (2014: \$2,160,055) had not been recognized in the statement of profit or loss and other comprehensive income. Management has determined that mortgage loans totaling \$5,666,853 (2014: \$5,998,962) are past due but not considered impaired.

During the year, the Company 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, 2015 amounted to \$974,752 and this is included in bad debt expenses in the statement of profit or loss and other comprehensive income.

*(Concluded)*

## 7. RECEIVABLES AND OTHER ASSETS, NET

Receivables and other assets comprise:

Reinsurance recoveries	\$ 6,958,049	\$ 6,220,475
Due from related parties	5,627,658	6,371,878
Premium receivables, net	4,482,033	3,021,493
Other receivables and other assets	2,717,598	1,879,999
Value added tax receivable	503,575	-
Prepayments and deposits	<u>385,862</u>	<u>327,993</u>
	20,674,775	17,821,838
Less: allowance for doubtful accounts	<u>(39,758)</u>	<u>(42,773)</u>
	<u>\$ 20,635,017</u>	<u>\$ 17,779,065</u>

The movement in allowance for doubtful accounts is as follows:

	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 42,773	\$ -
Bad debt expense	82,919	383,488
Recovery of bad debt	<u>(85,934)</u>	<u>(340,715)</u>
Balance, end of year	<u>\$ 39,758</u>	<u>\$ 42,773</u>

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

## 8. PROPERTY, PLANT AND EQUIPMENT, NET

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

	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	\$ 2,351,000	\$ 4,630,000	\$ 1,370,387	\$ 15,719	\$ 947,257	\$ 1,313,028	\$ 176,877	\$ 10,804,268
Additions	-	-	58,713	-	70,826	19,470	1,614,704	1,763,713
Transfers	-	-	-	-	58,117	23,572	(81,689)	-
Disposals - cost	-	-	(6,000)	-	(14,028)	-	-	(20,028)
Depreciation charge	-	(110,921)	(428,882)	(6,986)	(297,732)	(364,854)	-	(1,209,375)
Disposals - accumulated depreciation	-	-	6,000	-	8,380	-	-	14,380
Closing net book amount	<u>\$ 2,351,000</u>	<u>\$ 4,519,079</u>	<u>\$ 1,000,218</u>	<u>\$ 8,733</u>	<u>\$ 772,820</u>	<u>\$ 991,216</u>	<u>\$ 1,709,892</u>	<u>\$ 11,352,958</u>
As of December 31, 2015								
Cost or revaluation	\$ 2,351,000	\$ 4,630,000	\$ 4,692,268	\$ 76,443	\$ 3,756,077	\$ 5,983,685	\$ -	\$ 21,489,473
Work in progress	-	-	-	-	-	-	1,709,892	1,709,892
Accumulated depreciation	-	(110,921)	(3,692,050)	(67,710)	(2,983,257)	(4,992,469)	-	(11,846,407)
Net book amount	<u>\$ 2,351,000</u>	<u>\$ 4,519,079</u>	<u>\$ 1,000,218</u>	<u>\$ 8,733</u>	<u>\$ 772,820</u>	<u>\$ 991,216</u>	<u>\$ 1,709,892</u>	<u>\$ 11,352,958</u>

(Continued)

**2014**

	<u>Freehold Land</u>	<u>Freehold Buildings</u>	<u>Furniture &amp; Equipment</u>	<u>Motor Vehicles</u>	<u>Computer Hardware &amp; Software</u>	<u>Leasehold Improvements</u>	<u>Work in Progress</u>	<u>Total</u>
Year ended December 31, 2014								
Opening net book amount	\$ 2,320,863	\$ 3,793,596	\$ 1,202,659	\$ 22,706	\$ 914,105	\$ 804,773	\$ 742,855	\$ 9,801,557
Additions	-	-	433,170	-	342,985	20,750	719,351	1,516,256
Revaluations (Note 13)	30,137	948,940	-	-	-	-	-	979,077
Transfers	-	-	151,309	-	-	1,134,020	(1,285,329)	-
Disposals	-	-	-	-	-	-	-	-
Depreciation charge	-	(112,536)	(416,751)	(6,987)	(309,833)	(646,515)	-	(1,492,622)
Closing net book amount	<u>\$ 2,351,000</u>	<u>\$ 4,630,000</u>	<u>\$ 1,370,387</u>	<u>\$ 15,719</u>	<u>\$ 947,257</u>	<u>\$ 1,313,028</u>	<u>\$ 176,877</u>	<u>\$ 10,804,268</u>
As of December 31, 2014								
Cost or revaluation	\$ 2,351,000	\$ 4,630,000	\$ 4,639,556	\$ 76,443	\$ 3,641,166	\$ 5,940,642	\$ -	\$ 21,278,807
Work in progress	-	-	-	-	-	-	176,877	176,877
Accumulated depreciation	-	-	(3,269,169)	(60,724)	(2,693,909)	(4,627,614)	-	(10,651,416)
Net book amount	<u>\$ 2,351,000</u>	<u>\$ 4,630,000</u>	<u>\$ 1,370,387</u>	<u>\$ 15,719</u>	<u>\$ 947,257</u>	<u>\$ 1,313,028</u>	<u>\$ 176,877</u>	<u>\$ 10,804,268</u>

*(Continued)*

The Company's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurement of the Company's land and buildings as at December 31, 2014 was performed by R. Brownrigg of Bahamas Realty, an accredited independent appraiser with the appropriate qualifications and experience in the fair value measurement of properties in the relevant locations.

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. The surplus arising on revaluation in 2014 amounted to \$979,077 and was included in revaluation reserve in other comprehensive income.

Freehold land and buildings each include a revaluation surplus of \$1,396,640 (2014: \$1,396,640) and \$109,287 (2014: \$109,287), respectively.

Had the Company's land and buildings been measured on a historical cost basis, their carrying amount would have been \$5,475,074 (2014: \$5,475,074).

Details of the Company's freehold land and buildings fair value hierarchy at December 31, 2015 is as follows:

	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Freehold land	\$ -	\$ -	\$ 2,351,000	\$ 2,351,000
Freehold buildings	-	-	<u>4,519,079</u>	<u>4,519,079</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,870,079</u>	<u>\$ 6,870,079</u>
	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Freehold land	\$ -	\$ -	\$ 2,351,000	\$ 2,351,000
Freehold buildings	-	-	<u>4,630,000</u>	<u>4,630,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,981,000</u>	<u>\$ 6,981,000</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. RESERVES FOR FUTURE POLICYHOLDERS' BENEFITS

The Canadian Policy Premium Method (PPM) is used for the determination of reserves for future policyholders' benefits of long-term insurance contracts.

As of December 31, 2015, the aggregate reserves for future policyholders' benefits and related insurances in force are summarized as follows:

	Reserves		Insurances in force	
	2015	2014	2015	2014
Ordinary life	\$ 74,256,159	\$ 66,428,131	\$2,205,236,000	\$2,188,366,000
Annuities	71,549,333	67,993,630	-	-
Home service life	33,238,325	33,849,443	489,479,000	488,849,000
Accident and health	8,244,096	6,394,752	-	-
Gross liabilities	187,287,913	174,665,956	2,694,715,000	2,677,215,000
Reinsurance assets	(8,677,855)	(7,787,963)	-	-
	<u>\$178,610,058</u>	<u>\$166,877,993</u>	<u>\$2,694,715,000</u>	<u>\$2,677,215,000</u>

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 Company experience. Assumptions for other business lines are based on industry experience, as the Company does not have sufficient of its own experience. A margin is added for adverse deviation equal to 15 per 1,000 divided by the expectation of life for mortality and 8% to 10% for morbidity. If future mortality and morbidity rates were to differ by 10% from that assumed, the liability would increase by \$4,055,152 (2014: \$3,959,106) or decrease by \$4,094,316 (2014: \$3,982,030).

(Continued)

**(ii) Investment Yields**

Assets are allocated to life and annuity business lines. Expected investment yields are based on new money rates and expectant asset mix. A margin for adverse deviation is added by deducting 25 basis points (2014: 40 basis points) from current rates and assuming future interest rates reduce to 4.75% over 20 years. 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 \$13,627,676 (2014: \$13,309,786) or decrease by \$17,505,859 (2014: \$18,373,953).

**(iii) Persistency**

Lapse rates are based on the Company's experience where credible experience is available and industry experience is used where credible Company experience is not available. A margin for adverse deviation is added by increasing or decreasing lapse rates; whichever is adverse, by 20% on Home Service business and 15% on Ordinary business. If future lapse rates were to differ by 10% from that assumed, the liability would increase by \$97,751 (2014: \$106,836) or decrease by \$151,861 (2014: \$148,240).

**(iv) Expenses**

Expenses are based on best estimates of Company experience. Expenses are increased 10% as a margin for adverse deviation. Expenses are assumed to increase annually at a rate of 2.25% (2014: 2.25%) initially, decreasing to 1.75% (2014: 1.75%) over 20 years. If future expenses were to differ by 10% from that assumed, the liability would increase by \$3,111,648 (2014: \$3,118,078) or decrease by \$3,078,158 (2014: \$3,083,248).

**(v) Ongoing Review**

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

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

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

*(Continued)*

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>2015</b>	<b>2014</b>
Liabilities at beginning of year	\$ 5,796,077	\$ 6,506,199
Changes in Data, Methods, and Assumptions	(293)	195
Usual change in In-Force Business and New Business	<u>1,660,649</u>	<u>(710,317)</u>
Liabilities at end of year	<u>\$ 7,456,433</u>	<u>\$ 5,796,077</u>

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

	<b>2015</b>	<b>2014</b>
Liabilities at beginning of year	\$ 58,561,920	\$ 52,842,048
Changes in Data, Methods, and Assumptions	(2,476,632)	376,706
New Business	(2,173,328)	(1,817,223)
Usual change in In-Force Business	<u>7,598,917</u>	<u>7,160,389</u>
Liabilities at end of year	<u>\$ 61,510,877</u>	<u>\$ 58,561,920</u>

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

	<b>2015</b>	<b>2014</b>
Liabilities at beginning of year	\$ 80,912,927	\$ 77,927,780
Changes in Data, Methods, and Assumptions	589,571	(21,186)
New Business	3,578,510	2,654,200
Usual change in In-Force Business	<u>1,335,027</u>	<u>352,133</u>
Liabilities at end of year	<u>\$ 86,416,035</u>	<u>\$ 80,912,927</u>

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

	<b>2015</b>	<b>2014</b>
Liabilities at beginning of year	\$ 21,607,069	\$ 20,103,681
Changes in Data, Methods, and Assumptions	488,354	198,468
New Business	(132,910)	(159,719)
Usual change in In-Force Business	<u>1,264,200</u>	<u>1,464,639</u>
Liabilities at end of year	<u>\$ 23,226,713</u>	<u>\$ 21,607,069</u>

(Continued)

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 business</b>	<b>2015</b>	<b>2014</b>
Liabilities at beginning of year	\$166,877,993	\$157,379,708
Changes in Data, Methods, and Assumptions	(1,399,000)	554,183
New Business	1,272,272	677,258
Usual change in In-Force Business	<u>11,858,793</u>	<u>8,266,844</u>
Liabilities at end of year	<u>\$178,610,058</u>	<u>\$166,877,993</u>

*(Concluded)*

## 10. OTHER POLICYHOLDERS' FUNDS

Other policyholders' funds relate to unpaid benefits, premiums received in advance, unearned premiums and accumulated dividends.

## 11. PAYABLES AND ACCRUALS

Amounts due to reinsurers for reinsurance contracts at December 31, 2015 was \$1,223,614 (2014: \$3,383,445) and is included in the payables and accruals in the statement of financial position.

## 12. BANK OVERDRAFT FACILITIES

The Company has bank overdraft facilities of \$250,000 (2014: \$250,000). Amounts utilized under the facilities attract interest at Nassau prime plus 1.5%.

### 13. 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, 2013</b>	\$ (345,401)	\$ 3,433,629	\$ 3,088,228
Adjustment to fair value of investment in equities and fixed assets	<u>539,381</u>	<u>979,077</u>	<u>1,518,458</u>
<b>Balance as of December 31, 2014</b>	193,980	4,412,706	4,606,686
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>	<u>\$ 1,075,438</u>	<u>\$ 4,412,706</u>	<u>\$ 5,488,144</u>

### 14. SHARE CAPITAL

The Company's share capital is comprised as follows:

	<b>2015</b> Ordinary Shares at <u>\$1 each</u>	<b>2014</b> Ordinary Shares at <u>\$1 each</u>
Authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Issued and fully paid	<u>\$ 1,707,462</u>	<u>\$ 1,707,462</u>

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

## 15. NET PREMIUM INCOME AND ANNUITY DEPOSITS

Net premium income and annuity deposits are comprised of:

	<b>2015</b>	<b>2014</b>
Short-term insurance contracts	\$ 71,686,182	\$ 68,037,903
Long-term insurance contracts with fixed and guaranteed terms	19,811,868	19,560,595
Long-term insurance contracts without fixed and guaranteed terms	15,712,084	17,187,940
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	<u>3,186,314</u>	<u>3,289,467</u>
Premium revenue arising from insurance contracts issued	110,396,448	108,075,905
Premiums ceded for short-term and long-term contracts to reinsurers	<u>(9,638,363)</u>	<u>(9,311,764)</u>
	<u>\$100,758,085</u>	<u>\$ 98,764,141</u>

## 16. POLICYHOLDERS' BENEFITS

Policyholders' benefits for the year ended December 31, 2015 by insurance contracts were as follows:

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Short-term insurance contracts	\$45,773,731	\$ (3,475,791)	\$42,297,940	\$41,904,879	\$ (3,374,246)	\$38,530,633
Long-term insurance contracts with fixed and guaranteed terms	8,768,495	(2,049,628)	6,718,867	9,443,774	(2,778,709)	6,665,065
Long-term insurance contracts without fixed and guaranteed terms	12,092,205	-	12,092,205	14,401,567	-	14,401,567
Long-term insurance contracts with fixed and guaranteed terms and with discretionary participation feature (DPF)	<u>2,594,695</u>	<u>-</u>	<u>2,594,695</u>	<u>3,069,620</u>	<u>-</u>	<u>3,069,620</u>
	<u>\$69,229,126</u>	<u>\$ (5,525,419)</u>	<u>\$63,703,707</u>	<u>\$68,819,840</u>	<u>\$ (6,152,955)</u>	<u>\$62,666,885</u>

## 17. OPERATING LEASES

The Company leases certain office premises under non-cancellable operating leases. Future minimum rental commitments as of December 31, 2015 are as follows:

	<b>2015</b>	<b>2014</b>
Up to 1 year	\$ 1,894,607	\$ 1,936,567
1 year to 5 years	<u>7,544,861</u>	<u>7,544,861</u>
	<u>\$ 9,439,468</u>	<u>\$ 9,481,428</u>

Included in these balances are amounts for the future minimum rental commitments to the Parent company totaling \$1,836,180 (2014: \$1,836,180).

## 18. TAXATION

There are no corporate, income or capital gains taxes levied in The Bahamas and the Company, 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, 2015 amounted to \$2,996,468 (2014: \$2,886,667) and is included within operating expenses in the statement of profit or loss and other comprehensive income.

The Company is also subject to Value Added Tax (“VAT”) on taxable supplies at a standard rate of 7.5%. The Company 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 Company in excess of the input tax deductions is included in operating expenses in the statement of profit and loss and other comprehensive income.

## 19. PENSION PLAN

The Company’s pension costs, net of forfeitures in respect to the Plan for the year ended December 31, 2015, amounted to \$143,966 (2014: \$509,179) and is included in operating expenses in the statement of profit or loss and other comprehensive income.

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments to extend credit under mortgage loan agreements amounted to \$3,662,747 as of December 31, 2015 (2014: \$2,804,078).

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

The Company is contingently liable for \$5,000 (2014: \$5,000) in customs bonds and customs guarantees.



## 21. RELATED PARTY TRANSACTIONS AND BALANCES

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

	<b>2015</b>	<b>2014</b>
<b><i>Related party transactions:</i></b>		
Post-employment benefits	<u>\$ 23,919</u>	<u>\$ 25,795</u>
<b><i>Related party balances with Sagicor Life:</i></b>		
Receivables and other assets	<u>\$ 730,784</u>	<u>\$ 515,983</u>
Payables and accruals	<u>\$ 741,940</u>	<u>\$ 611,772</u>
<b><i>Related party transactions with Sagicor Life:</i></b>		
Premiums ceded to reinsurer	<u>\$ 4,203,565</u>	<u>\$ 3,937,906</u>
Reinsurance recoveries	<u>\$ 777,152</u>	<u>\$ 1,222,686</u>
Management fees	<u>\$ 132,000</u>	<u>\$ 132,000</u>
<b><i>Compensation of key management personnel:</i></b>		
Salaries and other short-term employee benefits	\$ 2,313,049	\$ 2,102,392
Commissions	<u>319,900</u>	<u>293,961</u>
	<u>\$ 2,632,949</u>	<u>\$ 2,396,353</u>

### ***Directors' remuneration:***

In 2015, the total remuneration of the Directors was \$214,000 (2014: \$214,000).

### ***Employees' incentive plan:***

The Company sponsors a plan as an on-going incentive system for its key employees. The plan holds 1,900 shares (2014: 1,950 shares) of the Parent company and these shares are awarded to the plan participants on an annual basis for services rendered in the previous year or as special awards for a promotion or upon hiring at the executive level. The Company makes cash awards as the need arises to the plan and the plan purchases the shares as needed on the open market at market value. The shares vest over a period of years, depending on the type of award granted.

Included in total loans are mortgages to the Parent company, which carry interest rates of 7.0% over 15 years, in the amount of \$5,547,319. (2014: \$5,802,865).

## 22. POST-RETIREMENT MEDICAL BENEFIT

The Company 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 Company are eligible for subsidized post-retirement medical, dental and vision benefits. The Company funds the cost of the entitlements expected to be earned on an annual basis. The Company's contributions will be provided as premium payments are due, for retired participants. Retirees are assumed to pay the full retiree costs, less the Company's subsidy.

In 2015, the employer contribution subsidy for medical costs was increased from 50% of active costs to 60% of retiree costs and a 50% employer contribution subsidy was provided for dental and vision costs. The Company set the contributions to a fixed dollar amount equivalent to the 2015 subsidy and eliminated the dental and vision subsidy for 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 statement of profit or loss and other comprehensive income consist of:

	<b>Other Postemployment Benefits</b>	
	<b>2015</b>	<b>2014</b>
<b>Components of benefit cost recognized in profit or loss and other comprehensive income:</b>		
Current service cost	\$ 38,307	\$ 36,483
Interest cost	30,766	28,952
Actuarial loss	-	-
Past service cost recognized	-	-
Net benefit cost in recognized in profit or loss and other comprehensive income	<u>\$ 69,073</u>	<u>\$ 65,435</u>
	<b>2015</b>	<b>2014</b>
<b>Components of benefit cost recognized in other comprehensive income:</b>		
Remeasurement on the defined benefit liability:		
Actuarial loss (gain) due to experience	\$ 14,172	\$ 8,659
Actuarial gain due to demographic assumption changes	-	-
Actuarial loss due to financial assumption changes	-	-
Actuarial loss (gain) on DBO	<u>\$ 14,172</u>	<u>\$ 8,659</u>

*(Continued)*

	<b>2015</b>	<b>2014</b>
<b>Total benefit cost recognized in profit or loss and other comprehensive income:</b>		
Cost recognized in profit or loss	\$ 69,073	\$ 65,435
Remeasurement effects recognized in other comprehensive income	<u>14,172</u>	<u>8,659</u>
Total benefit cost recognized in profit or loss and other comprehensive income	<u>\$ 83,245</u>	<u>\$ 74,094</u>

The current service cost, interest expense and past service cost for the year are included in the employee benefits expense in the statement of 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 Company's post retirement medical benefit plan.

#### **Funded Status**

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

	<b>Other Postemployment Benefits</b>	
	<u>2015</u>	<u>2014</u>
<b>Funded status, beginning of year</b>		
Benefit obligation, funded plans	\$ (630,412)	\$ (592,321)
Unrecognized net actuarial loss	<u>-</u>	<u>-</u>
Net amount recognized, end of year	<u>\$ (630,412)</u>	<u>\$ (592,321)</u>

#### **Amounts recognized in the statement of financial position consists of:**

	<b>2015</b>	<b>2014</b>
Liability	<u>\$ (630,412)</u>	<u>\$ (592,321)</u>

*(Continued)*

	<b>Other Postemployment Benefits</b>	
	<b>2015</b>	<b>2014</b>
<b>Experience adjustments</b>		
DBO, end of year	\$ (630,412)	\$ (592,321)
Funded status	<u>\$ (630,412)</u>	<u>\$ (592,321)</u>

	<b>Other Postemployment Benefits</b>	
	<b>2015</b>	<b>2014</b>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contribution	45,154	39,640
Plan participant's contribution	<u>(45,154)</u>	<u>(39,640)</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>2015</b>	<b>2014</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

Through its post-employment medical plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

*Changes in bond yields* - The present value of the defined benefit plan liability are calculated using a discount rate determined by reference to yields on Government bonds. Decreases in Government bond yields will increase plan liabilities. If future discount rates were increased or decreased by 100 basis points, the defined benefit obligation would increase or decrease by \$56,376 (2014: \$55,461).

*Mortality Risk* - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the liability. If life expectancy increases or decreases by one year for men and women, the defined benefit obligation would increase or decrease by \$1,746 (2014: \$1,565).

*(Continued)*

*Medical cost trend risk* - The present value of the defined benefit plan liability is calculated by reference to the future health cost trends. As such, increases in the cost levels tend to result in increases in the plan's liability. The Company has set the contributions to a fixed dollar amount, equivalent to the 2015 subsidy, for future periods. As a result, if medical cost increases or decreases by 1%, the defined benefit obligation would increase or decrease by \$0.

### **Expected employer contributions**

The Company expects to contribute \$30,982 (2014: \$30,982) to the post-retirement benefits plan in 2015. This benefit is expected to be paid from corporate assets.

(Concluded)

## **23. EARNINGS PER ORDINARY SHARE**

Earnings per ordinary share are comprised of the following:

	<b>2015</b>	<b>2014</b>
Weighted average number of ordinary shares outstanding	1,707,462	1,707,462
Profit attributable to ordinary shareholders	<u>\$ 6,593,951</u>	<u>\$ 7,711,284</u>
Earnings per ordinary share	<u>\$ 3.86</u>	<u>\$ 4.52</u>

## **24. BUSINESS SEGMENTS**

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

The Company 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.

Transactions between segments are carried out at arm's length. No inter-segment transactions occurred in 2015 and 2014. The revenue from external parties reported to Management is measured in a manner consistent with that in the 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 statement of financial position.

(Continued)

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 Company's revenue for both 2015 and 2014. All assets are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

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

	<b>2015</b>		
	(\$000)		
	<u>LIFE</u>	<u>HEALTH</u>	<u>TOTAL</u>
<b>INCOME</b>			
Net premium income	\$ 28,571	\$ 61,673	\$ 90,244
Annuity deposits	10,514	-	10,514
Investment income	11,731	326	12,057
Other income	766	166	932
Total income	<u>51,582</u>	<u>62,165</u>	<u>113,747</u>
<b>POLICYHOLDER BENEFITS</b>	32,044	43,391	75,435
<b>EXPENSES</b>	<u>16,258</u>	<u>15,460</u>	<u>31,718</u>
	<u>48,302</u>	<u>58,851</u>	<u>107,153</u>
<b>PROFIT FOR THE YEAR</b>	<u>\$ 3,280</u>	<u>\$ 3,314</u>	<u>\$ 6,594</u>
<b>TOTAL ASSETS</b>	<u>\$ 263,065</u>	<u>\$ 10,961</u>	<u>\$ 274,026</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 203,444</u>	<u>\$ 8,476</u>	<u>\$ 211,920</u>

*(Continued)*

	<b>2014</b>		
	(\$000)		
	<u>LIFE</u>	<u>HEALTH</u>	<u>TOTAL</u>
<b>INCOME</b>			
Net premium income	\$ 28,448	\$ 58,462	\$ 86,910
Annuity deposits	11,854	-	11,854
Investment income	11,735	306	12,041
Other income	<u>521</u>	<u>177</u>	<u>698</u>
Total income	<u>52,558</u>	<u>58,945</u>	<u>111,503</u>
<b>POLICYHOLDER BENEFITS</b>	34,792	37,373	72,165
<b>EXPENSES</b>	<u>16,095</u>	<u>15,532</u>	<u>31,627</u>
	<u>50,887</u>	<u>52,905</u>	<u>103,792</u>
<b>PROFIT FOR THE YEAR</b>	<u>\$ 1,671</u>	<u>\$ 6,040</u>	<u>\$ 7,711</u>
<b>TOTAL ASSETS</b>	<u>\$ 247,659</u>	<u>\$ 10,319</u>	<u>\$ 257,978</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 190,976</u>	<u>\$ 7,957</u>	<u>\$ 198,933</u>

*(Concluded)*

## 25. SUBSEQUENT EVENT

On February 26, 2016, the Board of Directors declared a fourth quarter dividend of \$0.35 per share or \$600,000 to shareholders of record as of March 9, 2016 and paid March 15, 2016.

## 26. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

### *Statement of financial position*

- Certain redeemable preference shares are presented in available-for-sale investment assets.
- Other bank term deposits are presented in held-to-maturity investment assets.

There was no effect to the statement of profit or loss and other comprehensive income as a result of these changes.

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