

**Bahamas First General Insurance  
Company Limited**

**Financial Statements For The Year  
Ended December 31, 2019 and  
Independent Auditors' Report**

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

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**KPMG**  
P.O. Box N-123  
Montague Sterling Centre  
East Bay Street  
Nassau, Bahamas

Telephone +1 242 393 2007  
Fax +1 242 393 1772  
Internet [www.kpmg.com.bs](http://www.kpmg.com.bs)

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
Bahamas First General Insurance Company Limited

### *Opinion*

We have audited the financial statements of Bahamas First General Insurance Company Limited (the "Company"), which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss, profit or loss and other comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter – comparative information*

We draw attention to Note 11 to the financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

### *Other Matter related to comparative information*

The financial statements of the Company as at and for the year ended December 31, 2017 (from which the statement of financial position as at January 1, 2018 has been derived), excluding the adjustments described in Note 11 to the financial statements, were audited by other auditors who expressed an unmodified opinion on those financial statements on April 6, 2018.

As part of our audit of the financial statements as at and for the year ended December 31, 2019, we audited the adjustments described in Note 11 that were applied to restate the comparative information presented as at and for the year ended December 31, 2018 and the statement of financial position as at January 1, 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended December 31, 2017 or to the statement of financial position as at January 1, 2018, other than with respect to the adjustments described in Note 11 to the financial statements. Accordingly, we do not express an opinion or any form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 11 are appropriate and have been properly applied.

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

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



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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

Nassau, Bahamas  
April 30, 2020

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	Notes	December 31, 2019	December 31, 2018 <i>Restated</i> <i>Note 11</i>	January 1, 2018 <i>Restated</i> <i>Note 11</i>
<b>ASSETS</b>				
Cash	6	\$ 53,131,120	\$ 3,265,549	\$ 8,295,270
Trade accounts receivable, net	4,8,20	12,396,372	10,111,142	10,827,249
Receivable from reinsurers		-	-	1,002,417
Sundry receivables and prepayments		3,528,631	838,162	480,120
Deferred commission costs	9	6,608,650	6,503,733	6,355,721
Unpaid claims recoverable from reinsurers	4,10	218,573,087	28,594,985	25,838,596
Deferred reinsurance premiums	9	26,832,356	25,390,227	23,670,996
Investments	7	26,169,903	27,193,925	31,600,524
Receivables from Parent	20	27,467,919	23,963,259	14,423,002
Receivables from related companies	20	6,282,847	3,843,316	-
Right-of-use assets	13	47,069	-	-
Investment property	11	2,100,000	2,000,000	2,000,000
Property and equipment	4,12	8,426,151	7,342,977	7,525,597
TOTAL		<u>\$ 391,564,105</u>	<u>\$ 139,047,275</u>	<u>\$ 132,019,492</u>

(Continued)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	Notes	December 31, 2019	December 31, 2018 <i>Restated Note 11</i>	January 1 2018 <i>Restated Note 11</i>
<b>LIABILITIES AND EQUITY</b>				
LIABILITIES:				
Accrued expenses and other liabilities		\$ 899,927	\$ 2,431,377	\$ 2,443,933
Lease liability	13	49,983	-	-
Reinsurance balances payable		68,670,534	1,238,883	-
Unearned commission income	9	6,822,437	6,429,990	6,323,415
Unearned premiums	9	38,912,671	37,124,645	35,702,045
Unpaid claims	4,10	233,611,504	41,749,868	40,160,774
Total liabilities		<u>348,967,056</u>	<u>88,974,763</u>	<u>84,630,167</u>
EQUITY:				
Share capital	14	7,500,000	7,500,000	7,500,000
Contributed surplus		14,100,000	14,100,000	14,100,000
Reserves	15,16	5,659,394	4,427,550	4,702,463
Retained earnings		15,337,655	24,044,962	21,086,862
Total equity		<u>42,597,049</u>	<u>50,072,512</u>	<u>47,389,325</u>
TOTAL		<u>\$ 391,564,105</u>	<u>\$ 139,047,275</u>	<u>\$ 132,019,492</u>

(Concluded)

See notes to financial statements.

These financial statements were approved by the Board of Directors on April 30, 2020 and are signed on its behalf by:

Patrick Ward  
Director

Alison Treco  
Director

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	Notes	2019	2018 Restated Note 11
<b>UNDERWRITING INCOME:</b>			
Gross premiums written	20	\$ 99,147,699	\$ 94,994,496
Movement in unearned premiums	9	<u>(1,788,026)</u>	<u>(1,422,600)</u>
		97,359,673	93,571,896
Premiums ceded to reinsurers		(69,011,787)	(65,514,095)
Movement in deferred reinsurance premiums	9	<u>1,442,129</u>	<u>1,719,231</u>
Net premiums earned		29,790,015	29,777,032
Commission income from reinsurers		<u>13,998,515</u>	<u>17,020,789</u>
Total underwriting income		<u>43,788,530</u>	<u>46,797,821</u>
<b>UNDERWRITING EXPENSES:</b>			
Commission expense	20	17,335,958	18,392,272
Cost of excess of loss reinsurance		6,841,406	6,898,015
Net claims incurred	10	18,380,899	8,422,640
Premium tax		<u>2,887,797</u>	<u>2,766,830</u>
Total underwriting expenses		<u>45,446,060</u>	<u>36,479,757</u>
Net underwriting (loss)/income		<u>(1,657,530)</u>	<u>10,318,064</u>
<b>OTHER EXPENSES:</b>			
Management fees	20	3,063,419	2,772,560
Salaries, benefits and bonuses	18,19,20	2,538,225	2,750,948
General and administrative expenses		2,622,923	1,695,902
Leasee interest		2,756	-
Depreciation	12,13	<u>241,614</u>	<u>193,988</u>
Total other expenses		<u>8,468,937</u>	<u>7,413,398</u>
UNREALIZED (LOSS) ON INVESTMENT	7	-	(2,541,582)
OTHER INCOME	17	<u>1,421,798</u>	<u>2,595,016</u>
(LOSS)/PROFIT FOR THE YEAR		<u>\$ (8,704,669)</u>	<u>\$ 2,958,100</u>

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ENDED DECEMBER 31, 2019

*(Expressed in Bahamian dollars)*

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	Notes	2019	2018 Restated Note 11
(LOSS)/PROFIT FOR THE YEAR		\$ (8,704,669)	\$ 2,958,100
OTHER COMPREHENSIVE INCOME/(LOSS):			
Item that will not be reclassified subsequently to profit or loss:			
Revaluation of land and buildings	12,16	1,155,821	-
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustment of available-for-sale investment	7,16	-	(340,388)
Unrealized gain on available-for-sale investments	7,16	76,023	65,475
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>1,231,844</u>	<u>(274,913)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>\$ (7,472,825)</u>	<u>\$ 2,683,187</u>

See notes to financial statements.



## BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>General Reserve</u>	<u>Revaluation Reserve</u> Restated	<u>Retained Earnings</u> Restated	<u>Total</u>
Balance at December 31, 2017 as previously reported	\$ 7,500,000	\$ 14,100,000	\$ 3,500,000	\$ 2,703,588	\$ 19,503,853	\$ 47,307,441
Correction of error (Note 11)	\$ -	\$ -	\$ -	\$ (1,501,125)	\$ 1,583,009	81,884
Restated balance at January 1, 2018 (Note 11)	\$ 7,500,000	\$ 14,100,000	\$ 3,500,000	\$ 1,202,463	\$ 21,086,862	47,389,325
Profit for the year as previously reported	-	-	-	-	2,892,592	2,892,592
Correction of error (Note 11)	-	-	-	-	\$65,508	65,508
Other comprehensive loss	-	-	-	(274,913)	-	(274,913)
Total comprehensive (loss)/income	-	-	-	(274,913)	2,958,100	2,683,187
Restated Balance at December 31, 2018	7,500,000	14,100,000	3,500,000	927,550	24,044,962	50,072,512
Adjustment on initial application of IFRS 16 (Note 3p)	-	-	-	-	(2,638)	(2,638)
Balance at January 1, 2019	7,500,000	14,100,000	3,500,000	927,550	24,042,324	50,069,874
Loss for the year	-	-	-	-	(8,704,669)	(8,704,669)
Other comprehensive income	-	-	-	1,231,844	-	1,231,844
Total comprehensive income/(loss)	-	-	-	1,231,844	(8,704,669)	(7,472,825)
Balance at December 31, 2019	<u>\$ 7,500,000</u>	<u>\$ 14,100,000</u>	<u>\$ 3,500,000</u>	<u>\$ 2,159,394</u>	<u>\$ 15,337,655</u>	<u>\$ 42,597,049</u>

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	Notes	2019	2018 Restated Note 11
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss)/profit for the year		\$ (8,704,669)	\$ 2,958,100
Adjustments for:			
Depreciation	12,13	241,614	193,988
Leasee interest		2,756	-
Unrealized loss on investment	7	-	2,541,582
Realized gains on sales of investments	7,17	-	(1,198,956)
Reclassification of AFS investments	7,16	-	(340,388)
(Increase)/decrease in trade accounts receivable, net		(2,285,230)	716,107
Decrease in receivable from reinsurers		-	1,002,417
(Increase) in sundry receivables and prepayments		(2,690,469)	(358,042)
(Increase) in deferred commission costs	9	(104,917)	(148,012)
(Increase) in deferred reinsurance premiums	9	(1,442,129)	(1,719,231)
(Increase) in receivable from related companies		(5,944,191)	(13,383,573)
(Increase) in investment property	11	(100,000)	-
(Decrease) in accrued expenses and other liabilities		(1,531,450)	(12,556)
Increase in payable to reinsurers		67,431,651	1,238,883
Increase in unearned commission income	9	392,447	106,575
Increase in unearned premiums	9	1,788,026	1,422,600
Increase/(decrease) in net unpaid claims	10	1,883,534	(1,167,295)
Net cash from/(used in) from operating activities		<u>48,936,973</u>	<u>(8,147,801)</u>

(Continued)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in Bahamian dollars)

	Notes	2019	2018 Restated Note 11
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	12	\$ (148,048)	\$ (11,368)
Proceeds from sales and maturities of investments	7	3,699,545	3,129,448
Purchase of investments	7	<u>(2,599,500)</u>	<u>-</u>
Net cash from investing activities		<u>951,997</u>	<u>3,118,080</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Lease liability cash payments		<u>(23,399)</u>	<u>-</u>
Net cash used in financing activities		<u>(23,399)</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		49,865,571	(5,029,721)
CASH AND CASH EQUIVALENTS:			
BEGINNING OF YEAR		<u>3,265,549</u>	<u>8,295,270</u>
END OF YEAR		<u>\$ 53,131,120</u>	<u>\$ 3,265,549</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:			
Interest received, bank deposits		<u>\$ -</u>	<u>\$ 54,891</u>
Interest received, investments		<u>\$ 635,290</u>	<u>\$ 675,505</u>
Dividends received		<u>\$ 316,641</u>	<u>\$ 348,624</u>
Premium taxes paid		<u>\$ 2,887,797</u>	<u>\$ 2,766,830</u>

(Concluded)

See notes to financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in Bahamian dollars)

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### 1. GENERAL

Bahamas First General Insurance Company Limited (the “Company”) was incorporated on September 8, 1982 under the laws of the Commonwealth of The Bahamas. Effective January 1, 1998 the Company became a wholly-owned subsidiary of Bahamas First Holdings Limited (“BFH” or “Parent”). It is registered to carry on general insurance business. One of BFH’s subsidiaries, Nassau Underwriters Agency Insurance Agents and Brokers Ltd. (“NUA”) acts as an insurance agent for the Company. First Response Limited (“FRL”), a wholly-owned subsidiary of BFH, provides motor vehicle claim roadside assistance and claim adjusting services to the Company.

The Company, BFH, and the other subsidiaries of BFH are hereinafter collectively referred to in these financial statements as the “Group”. All of the Group’s companies except BFH International Limited (“BFHIL”) and its subsidiaries are incorporated in The Bahamas. BFHIL, Cayman First Insurance Company Limited (“CFI”), BFH Services (Cayman) Limited, and Brac Insurance Associates Ltd. are incorporated under the laws (2009 Revision) of the Cayman Islands.

The registered office of the Company is located at 32 Collins Avenue, Nassau, Bahamas.

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

#### a. New and amended Standards and Interpretations adopted by the Company

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee of the IASB effective for annual reporting periods beginning on or after January 1, 2019.

#### *IFRS 16 – Leases*

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – it is presented, as previously reported, under IAS 17 and related interpretations. The details of changes in accounting policies are disclosed in Note 3p and 13.

A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Company’s financial statements.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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

#### b. Standards and Interpretations effective but not affecting the reported results or financial position

##### *IFRS 9 – Financial Instruments*

During 2019, the Company performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

The IASB issued a temporary exemption for the effective date of implementation of IFRS 9 for insurance companies which meet certain qualifying criteria. This exemption allows the application of IFRS 9 to be deferred until January 1, 2022. At December 31, 2019, the Company met these qualifying criteria of i) not applying any previous version of IFRS 9 and ii) at least 90% of its total liabilities being connected to insurance contracts and has therefore deferred implementation of IFRS 9.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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

#### c. Standards and Interpretations in issue but not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the aforementioned date.

*Effective for annual periods beginning on or after January 1, 2020*

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material

The amendments refine the definition of material in IAS 1 and align the definitions used across IFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020. The Company is currently assessing the impact of adopting this interpretation but does not expect it to have a significant impact.

*Effective for annual periods beginning on or after January 1, 2023*

IFRS 17 – Insurance contracts

IFRS 17 was issued in May 2017 as a replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as income over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts. The Company has not yet fully assessed the impact of the new standard on its results.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies:

- a. ***Basis of preparation*** - These financial statements have been prepared in accordance with IFRS on the accrual basis and under the historical cost convention, except for certain investments measured at fair value, land and buildings, which are carried at revalued amounts based on valuations performed every three years and investment property which are carried at fair value. 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. During the current year, within the statement of financial position, the payable to reinsurers caption was renamed as reinsurance balances payable. Corresponding figures within this caption was adjusted to conform to changes in presentation to more accurately represent the nature of the liability classification adopted in the current year. The accounting policies are consistent with those used in previous years, except for the adoption of IFRS 16, Leases which became effective on January 1, 2019.

- b. ***Financial instruments***

***Classification and measurement*** - On initial recognition, a financial asset or liability is measured at its fair value plus, in the case of investments not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately and amortized for other financial instruments.

The classification depends on the nature and purpose of the financial assets. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date. Financial assets are classified as either financial assets at fair value through profit or loss (“FVTPL”); available-for-sale (“AFS”); held-to-maturity investments; or loans and receivables; and are measured as follows:

- i. Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL where the financial asset is either held for trading or is designated as FVTPL. A financial asset is classified into the FVTPL category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. These assets are stated at fair value, with any resultant gain or loss recognized in the statement of profit or loss and other comprehensive income.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. *Financial instruments (continued)*

##### ii. Available-for-sale investments

AFS financial assets are those non-derivative financial assets that are either designated as available for sale or are not classified as a) FVTPL, b) held-to-maturity or c) loans and receivables. AFS assets are stated at fair value. Cost may be used to approximate the fair value of AFS assets.

##### iii. Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are non-derivative financial assets which are carried at amortized cost using the effective interest method less any impairment, with income recognized on an effective yield basis. Investment income is recorded in interest income in the statement of profit or loss and other comprehensive income.

##### iv. Loans and receivables

Loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, and which the Company has no intention of trading or designating at fair value. Loans and receivables are recognized when the Company provides goods or services to debtors or cash is advanced to borrowers. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less any impairment.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Trade accounts receivable, sundry receivables and prepayments, unpaid claims recoverable from reinsurers and receivables from parent and other related companies are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Reinsurance balances payable and accrued expenses and other liabilities are financial liabilities, which are carried at cost, which equates to amortized cost.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. *Financial instruments (continued)*

Investments in Bahamas Government Registered Stock are classified as loans and receivables and are carried at amortized cost. Preference shares and redeemable fixed rate note investments that meet the criteria are also classified as loans and receivables and carried at amortized cost. Preference shares and mutual fund investments that do not meet the loan and receivables recognition criteria are classified as available-for-sale and are measured at fair value at the statement of financial position date. All other investments are classified as financial assets at fair value through profit or loss.

Gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income (loss) until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income (loss) is included in profit or loss for the period. Investments are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company. The gain or loss on investments classified as at fair value through profit or loss is recognized in the statement of profit or loss.

*Recognition and derecognition* - The Company recognizes a financial asset or financial liability when it becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its right to receive cash flows from the asset and substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished.

#### c. *Trade accounts receivable* - Trade accounts receivable is stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio, as noted in Note 4(c).

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d. **Investment property** - Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Rental income from investment property is recognized as other income on a straight-line basis over the term of the lease. Lease incentives granted are recognized over the term of the lease.

- e. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and impairment losses.

Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the statement of profit or loss as an expense as incurred. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the statement of profit or loss.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the assets. Land is not depreciated and expenditure incurred on construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	5 - 10 years
Leasehold improvements and others	3 - 5 years

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) *(Expressed in Bahamian dollars)*

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### e. *Property and equipment (continued)*

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed at least once every three years. At the end of each reporting period, management updates its assessment of the fair value of each property, considering current information available and the most recent independent valuations. The fair value measurement is categorized in Level 3 in the fair value hierarchy. A revaluation increment is recorded in other comprehensive income (loss), unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset, including depreciation.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income (loss).

Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- f. **Impairment** – The Company evaluates at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of profit or loss. When a financial asset is uncollectible, it is written off against the related allowance account. Recoveries of accounts previously written off are recognized directly in the statement of profit or loss.

Non-financial assets, except for investment property, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where one of these assets previously suffered an impairment, it is reviewed for possible reversal of the impairment at the end of each reporting period. To the extent that the impairment is reversed, it is recognized in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. *Insurance contracts*

Product classification - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Company agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Company are as follows:

Property and casualty (“P&C”) insurance contracts - Property and casualty contracts are generally one-year renewable contracts issued by the Company covering insurance risks over property, motor, marine, engineering and general accident.

Reinsurance contracts - Contracts with reinsurers under which the Company is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are accounted for in the same manner as insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance 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 over the period of the contract.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the statement of profit or loss.

Portfolio Transfer In / (Out) - At the option of the Company and at the anniversary date of the reinsurance agreements, proportional reinsurers agree to relinquish (assume) liability for all policies in force at such anniversary date. The Company debits (credits) the reinsurers with the related portion of the unearned premiums and unpaid claims calculated in accordance with the method outlined in the agreement.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. *Insurance contracts (continued)*

Premiums - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums.

Unearned premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

Premiums ceded - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

h. *Unpaid claims and unpaid claims recoverable from reinsurers* - The provision for unpaid claims and the reinsurers' share thereof, represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each statement of financial position date.

The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the statement of profit or loss.

At the date of the statement of financial position, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. Management has engaged independent actuaries to assist in performing the liability adequacy test at year-end.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. *Policy acquisition cost*

Deferred and unearned commissions - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

Commission income and expense - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Profit commissions received from reinsurers and non-group insurers, which are calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. Profit commission income and expense are recognized when the Company's right to receive, or obligation to make, payment has been established.

j. *Dividend and interest income* – Dividends are recognized in profit or loss when the Company's right to receive the dividend income is established. Interest income is accounted for on an accrual basis. Both are recognized in Other Income in the statement of profit or loss.

k. *Cash and cash equivalents* - Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.

l. *Share capital* - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common shares. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

Dividends on common shares are recognized as a liability and deducted from equity when they are declared by the Company's Board of Directors.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. *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 rates 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/(loss).

n. *Related parties* - Related parties include:

- i. key management personnel, including Directors; and close members of that persons family;
- ii. entities that have the ability to control or exercise significant influence over the Company in making financial or operational decisions; and
- iii. entities that are controlled, jointly controlled or significantly influenced by parties in (i) and (ii).

o. *Pension benefits* - The Company's employees participate in a defined contribution plan. Under the plan, the Company contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Company has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the statement of profit or loss.

p. *Leases* - At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. *Leases (continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- i. fixed payments, including in-substance fixed payments;
- ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii. amounts expected to be payable under a residual value guarantee; and
- iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents its right-of-use asset and lease liability in the statement of financial position.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. *Leases (continued)*

On transition to IFRS 16, the Company recognised \$67,987 in a right-of-use asset and \$70,625 in a lease liability, recognizing the difference in opening retained earnings.

*Short-term leases and leases of low-value assets*

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- q. **Taxation** - The Company is subject to premium tax on taxable gross premium income at the flat rate of 3% (2018: 3%). Value added tax (VAT) is assessed at 12% (2018: 12%) on taxable gross premium income. There are no other taxes on corporate income or capital gains levied on the Company.

- r. **Contingent liabilities** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

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 that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value.

Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company will ultimately pay to settle such claims.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, and the cost of automobile and property repair materials and labour rates.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event.

Information for long-tail claims such as casualty claims for bodily injury and general third party and employers' liability claims may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Company does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Company's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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

a. *The ultimate liability arising from claims made under insurance contracts (continued)*

The carrying value at the statement of financial position date of gross unpaid claims reported and loss adjustment expenses and claims incurred but not reported (“IBNR”) was \$233,611,504 (2018: \$41,749,868). The amount of reinsurance recoveries estimated at the statement of financial position date is \$218,573,087 (2018: \$28,594,985).

Refer to Note 10 for further information on the provision for unpaid claims.

b. *Pro-ration of Premiums and Commissions*

As described in Note 3g, unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the statement of financial position date. Similarly, as per Note 3i, deferred and unearned commissions at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the statement of financial position date. Commissions received from reinsurers are dependent on the underlying loss ratio of the various classes of business, on an underwriting year basis. Commissions are susceptible to adjustments in future years as the underwriting year result develops.

These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

c. *Provision for bad debts*

As described in Note 3c, provision for bad debts is based on management’s evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company. The carrying value at the statement of financial position date for trade accounts receivable, net was \$12,396,372 (2018: \$10,111,142).

d. *Depreciation*

Depreciation is based on management’s estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions 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 and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) *(Expressed in Bahamian dollars)*

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

#### e. *Fair value of financial assets and liabilities*

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available.

Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Company has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

Investments for which observable market prices do not exist are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected income, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability).

For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include trade accounts receivable, reinsurance balances receivable, sundry receivables and prepayments, reinsurance balances payable and accrued expenses and other liabilities.

For long term financial instruments carried at cost with fixed interest rates, despite a change in market rates since the issuance of the financial assets there has been no observable change in fair values; accordingly, the carrying values approximate fair values. Other long term instruments carried at cost have rates that periodically reset to market rates minimizing the exposure to fair value interest rate risk.

Refer to Notes 5 and 7 for further information on the fair value of financial assets and liabilities.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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

#### f. *Building revaluation*

Land and buildings are revalued triennially based on outputs derived from an independent appraisal report. The techniques used by the appraiser involve the use of assumptions to provide a fair value estimate of land and buildings. Information about the valuation technique and inputs used in determining the fair value of the land and buildings are disclosed in Notes 11 and 12.

### 5. RISK MANAGEMENT

The Company is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management structure. The Company has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to oversee the management of the risks assigned within its respective Board approved mandate. It is management's responsibility to adhere to the parameters established within the Board's risk management structure. This is executed through periodic evaluation of risk registers, development of appropriate policies and procedures, periodic measurement of KPIs, and the necessary controls to ensure reliable reporting and material compliance with regulatory guidelines. The Group's Internal Audit function reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Company. The committees report regularly to the Board of Directors on their activities.

The Company has exposures to risks that may develop in each class of business and could have a material impact upon the Company's financial position.

#### **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, the risk is random and therefore unpredictable.

Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company insures the risks of entities within The Bahamas. Below is a discussion of insurance risks specific to the lines of coverage provided by the Company.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Property and casualty insurance risks

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured.

Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

For the Company's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims.

Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The key factors that influence the quantum of claim settlements are the costs of rebuilding properties and the replacement of or indemnity for building contents.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Company actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Company's capital and reserves in the event of a series of claims arising out of a single occurrence.

The Company is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Company is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Company's strategy is to select reinsurers with the best combination of financial strength, price and capacity.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Property and casualty insurance risks (continued)

In the event that the Company's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Company would still be obligated to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations.

Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

The reinsurance program used by the Company is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

#### **Financial risk**

The Company is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Company are credit risk, market risk and liquidity risk. Market risk exposure results from adverse movements in market rates and prices and as a result the Company is exposed to interest rate risk, foreign currency risk and price risk.

Financial risk is a significant risk for the Company's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Company and regulatory policies and guidelines.

The following table reconciles financial assets and financial liabilities to the Company's statement of financial position:



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Financial risk (continued)

	2019	2018
<b>Financial assets:</b>		
Cash	\$ 53,131,120	\$ 3,265,549
Investments:		
Loans and receivables	5,970,763	7,276,708
At fair value through profit or loss	14,248,864	14,248,864
Available-for-sale	5,950,276	5,668,353
Loans and receivables:		
Trade accounts receivable, net	12,396,372	10,111,142
Receivables from related companies	33,750,766	27,806,575
Sundry receivables*	<u>3,013,895</u>	<u>666,093</u>
Total financial assets	<u>128,462,056</u>	<u>69,043,284</u>
Non - financial assets	<u>263,102,049</u>	<u>70,003,991</u>
Total assets	<u>\$ 391,564,105</u>	<u>\$ 139,047,275</u>
<b>Financial liabilities:</b>		
Payables at amortized cost:		
Payable to reinsurers and accrued expenses and other liabilities	<u>\$ 69,620,444</u>	<u>\$ 3,670,260</u>
Total financial liabilities	<u>69,620,444</u>	<u>3,670,260</u>
Non - financial liabilities	<u>279,346,612</u>	<u>85,304,503</u>
Total liabilities	<u>\$ 348,967,056</u>	<u>\$ 88,974,763</u>

\*excludes prepayments of \$514,736 (2018: \$172,069).

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Company is exposed to credit risk are in cash and cash equivalents, investments, unpaid claims recoverable from reinsurers, trade accounts receivable, and sundry receivables.

The Company's investment policy permits the Company to invest in fixed income securities, equity securities, private placements of financial institutions and term deposits, and to limit exposure to any one issuer. The Company's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Company.

The Company is exposed to credit risk in respect of trade accounts receivable balances due from agents that bind insurance policies on its behalf. The Company periodically inspects the financial records of these intermediaries to proactively address any negative trends. Commissions paid to these intermediaries are also netted off against amounts receivable from them to reduce the amount at risk for default.

The Company is also exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Company's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information.

The Company has approved limits for the maximum participation of any one reinsurer in its reinsurance program. Reinsurance coverage is placed with a number of major international third party reinsurers, including underwriting members of Lloyd's, with credit ratings of A- or higher from A.M. Best or Standard & Poor's. The concentration of credit risk is also monitored to minimize the Company's exposure to significant losses from reinsurer insolvency.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

The following assets of the Company are exposed to credit risk:

	<b>2019</b>	<b>2018</b>
Available-for-sale securities:		
Preference shares	\$ 1,800,000	\$ 1,800,000
Fixed income debt securities	1,970,000	1,970,000
Mutual fund	2,180,276	1,898,353
Loans and receivables:		
Bahamas Government Registered Stocks	3,359,900	4,439,600
Fixed income debt securities	2,610,863	2,837,108
Trade accounts receivable	12,396,372	10,111,142
Receivables from related parties	33,750,766	27,806,575
Sundry receivables	3,013,895	666,093
Reinsurers' share of provision for unpaid claims	218,573,087	28,594,985
Cash	<u>53,131,120</u>	<u>3,265,549</u>
Total	<u>\$ 332,786,279</u>	<u>\$ 83,389,405</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Credit risk (continued)

Financial and other assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

<b>At December 31, 2019</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	<b>Impaired</b>	<b>Total</b>
Available-for-sale securities	\$ 5,950,276	\$ -	\$ -	\$ 5,950,276
Loans and receivables:				
Debt Securities	5,970,763	-	-	5,970,763
Trade accounts receivable	11,274,730	1,121,642	-	12,396,372
Due from related party	33,750,766	-	-	33,750,766
Other receivables	3,013,895	-	-	3,013,895
Reinsurers' share of provision for unpaid claims	218,573,087	-	-	218,573,087
Cash	53,131,120	-	-	53,131,120
Total assets exposed to credit risk	<u>\$ 331,664,637</u>	<u>\$ 1,121,642</u>	<u>\$ -</u>	<u>\$ 332,786,279</u>
<b>At December 31, 2018</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>	<b>Impaired</b>	<b>Total</b>
Available-for-sale securities	\$ 5,668,353	\$ -	\$ -	\$ 5,668,353
Loans and receivables:				
Debt Securities	7,276,708	-	-	7,276,708
Trade accounts receivable	9,238,697	872,445	-	10,111,142
Due from reinsurers	-	-	-	-
Due from related party	27,806,575	-	-	27,806,575
Other receivables	666,093	-	-	666,093
Reinsurers' share of provision for unpaid claims	28,594,985	-	-	28,594,985
Cash	3,265,549	-	-	3,265,549
Total assets exposed to credit risk	<u>\$ 82,516,960</u>	<u>\$ 872,445</u>	<u>\$ -</u>	<u>\$ 83,389,405</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Company does not hold collateral as security.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cashflows will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating interest rate financial instruments, which the Company intends to hold for the long-term.

The Company's investment in Bahamas Government Registered Stock and other fixed income debt securities, mutual funds and cash and cash equivalents are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Company's interest bearing investments.

#### Foreign currency risk

The Company is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars ("B\$"), which is fixed to the US dollar at the following rate: B\$1 = US\$1.

#### Price risk

The Company is subject to price risk on its investments due to fluctuations in fair value as a result of changes in market prices. One of the primary objectives of the Company's risk management policy is to mitigate potential adverse impacts of market movements.

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Company is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Company's statement of investment policy and guidelines. The effect of a 10% increase (2018: 10%) and a 10% decrease (2018: 10%) in prices at the date of the statement of financial position are set out below:

	Carrying value	Effect on total profit and equity +10%	Effect on total profit and equity -10%
<b>At December 31, 2019</b>			
Listed on stock exchanges / markets	\$ 14,248,864	\$ 1,424,886	\$(1,424,886)
Preference shares	1,800,000	180,000	(180,000)
Fixed income debt securities	1,970,000	197,000	(197,000)
Listed mutual funds	2,180,276	218,028	(218,028)
Total	<u>\$ 20,199,140</u>	<u>\$ 2,019,914</u>	<u>\$(2,019,914)</u>
<b>At December 31, 2018</b>			
Listed on stock exchanges / markets	\$ 14,248,864	\$ 1,424,886	\$(1,424,886)
Preference shares	1,800,000	180,000	(180,000)
Fixed income debt securities	1,970,000	\$ 197,000	\$(197,000)
Listed mutual funds	1,898,354	189,835	(189,835)
Total	<u>\$ 19,917,218</u>	<u>\$ 1,991,721</u>	<u>\$(1,991,721)</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Liquidity risk

Liquidity risk is the risk that the Company may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events the Company is exposed to a liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. The Company's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Company may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Company mitigates this risk by maintaining significant holdings in cash and cash equivalents and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments. The statement of financial position presents assets and liabilities in order of liquidity. Except for the investment assets shown as due over one year in note 7, in the unpaid claims recoverable projections shown below, property plant & equipment and the right of use asset, all assets could result in cash inflows within one year.

The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2019 and 2018.

2019 Financial liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 899,927	\$ 899,927	\$ -	\$ -
Payable to reinsurers	68,670,534	68,670,534	-	-
Unpaid claims	233,611,504	180,943,401	28,688,079	23,472,064
Less: unpaid claims recoverable from reinsurers	(218,573,087)	(174,891,546)	(19,807,501)	(16,206,137)
Total undiscounted cash flows	<u>\$ 84,608,878</u>	<u>\$ 75,622,316</u>	<u>\$ 8,880,578</u>	<u>\$ 7,265,927</u>
2018 Financial liabilities	Cash flows			
	Total	< 1 year	1 - 5 years	> 5 years
Accrued expenses and other liabilities	\$ 2,431,377	\$ 2,431,377	\$ -	\$ -
Payable to reinsurers	1,238,883	1,238,883	-	-
Unpaid claims	41,749,868	9,038,169	16,257,608	16,454,091
Less: unpaid claims recoverable from reinsurers	(28,594,985)	(6,190,350)	(11,135,031)	(11,269,604)
Total undiscounted cash flows	<u>\$ 16,825,143</u>	<u>\$ 6,518,079</u>	<u>\$ 5,122,577</u>	<u>\$ 5,184,487</u>

In addition to the analysis above, we have disclosed the cashflows for lease liabilities in note 13. All other liabilities are anticipated to be settled within one year.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 5. RISK MANAGEMENT (CONTINUED)

#### Sensitivity analysis

The Company predominantly funds its net insurance liabilities through its cash generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Company's portfolio of investments. Several of the Company's investments are subject to the impact of interest rate fluctuations.

Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. Projections are based on assumptions implicit in the historic claims development. As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Company's experience.

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation between the assumptions.

Sensitivity factor	Description of sensitivity factor applied
Interest rates	The impact of a change in market interest rates by 1%
Underwriting expenses	The impact of a change in underwriting expenses by 5%
Loss ratio	The impact of a change in loss ratio by 5%

December 31, 2019 in B\$	Interest rates		Underwriting Expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	406,314	(406,314)	(1,353,258)	1,353,258	(1,489,501)	1,489,501
Impact on equity	406,314	(406,314)	(1,353,258)	1,353,258	(1,489,501)	1,489,501
<b>December 31, 2018 in B\$</b>						
December 31, 2018 in B\$	Interest rates		Underwriting Expenses		Loss ratio	
	+1%	-1%	+5%	-5%	+5%	-5%
Impact on profit	194,732	(194,732)	(1,402,856)	1,402,856	(1,488,852)	1,488,852
Impact on equity	194,732	(194,732)	(1,402,856)	1,402,856	(1,488,852)	1,488,852

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 5. RISK MANAGEMENT (CONTINUED)

#### Capital management

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- To ensure that it maintains a strong credit rating (minimum AM Best rating of A-Excellent) and healthy capital ratios in order to support its business objectives; and
- To comply with regulatory capital requirements stipulated in the jurisdiction in which the Company operates.

The Company actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

### 6. CASH

Cash consists of the following:

	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 2,200	\$ 2,200
Cash at bank	<u>53,128,920</u>	<u>3,263,349</u>
	<u>\$ 53,131,120</u>	<u>\$ 3,265,549</u>



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 7. INVESTMENTS

	2019	2018
Loans and receivables:		
Bahamas Government Registered Stock - cost		
Unrestricted	\$ 2,359,900	\$ 3,439,600
Restricted	1,000,000	1,000,000
Fixed income debt securities, at cost	<u>2,610,863</u>	<u>2,837,108</u>
Total loans and receivable	<u>5,970,763</u>	<u>7,276,708</u>
At fair value through profit or loss:		
Commonwealth Bank Limited 3,166,414 (2018: 3,166,414) common shares Cost \$1,306,277 (2018: \$1,306,277)	<u>14,248,864</u>	<u>14,248,864</u>
Total at fair value through profit or loss	<u>14,248,864</u>	<u>14,248,864</u>
Available-for-sale:		
Fixed income debt securities, at fair value Cost \$1,970,000 (2018: \$1,970,000)	1,970,000	1,970,000
Mutual fund, at fair value; Cost \$1,820,939 (2018: \$1,618,937)	2,180,276	1,898,353
Preference shares, at fair value Cost \$1,810,500 (2018: \$1,810,500)	<u>1,800,000</u>	<u>1,800,000</u>
Total available-for-sale	<u>5,950,276</u>	<u>5,668,353</u>
Total investments	<u>\$ 26,169,903</u>	<u>\$ 27,193,925</u>

Loans and receivables investments are recorded at amortized cost based on the effective interest rate method. The variable interest rate instruments are tied to Bahamian Dollar Prime, with interest rates ranging from 3.37% to 4.44% per annum (2018: 4.29% to 4.44%) and scheduled maturities between 2020 and 2030 (2018: 2019 and 2030) at the date of the statement of financial position.

In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Company established a Trust Account (the "BFG Trust") in which \$1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Company.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 7. INVESTMENTS (CONTINUED)

As at December 31, 2019, the investment in Commonwealth Bank Limited (the “Bank”) was valued at \$4.50 (2018: \$4.50) per share which was the quoted price by the Bahamas International Securities Exchange (“BISX”). As a result, the Company recorded an unrealized gain of \$Nil (2018: loss of \$2,541,582) for the year then ended.

Reconciliation of movements in the balance of investments is provided below:

	<u>Loans and Receivable</u>	<u>Fair value through profit or loss</u>	<u>Available- for-sale</u>	<u>Total</u>
At December 31, 2017	\$ 8,547,045	\$ 17,160,100	\$ 5,893,379	\$ 31,600,524
Cost of investments purchased	-	-	-	-
Proceeds from sales and maturities	(1,270,337)	(1,568,610)	(290,501)	(3,129,448)
Realized gains on sales of investments (Note 17)	-	1,198,956	-	1,198,956
(Decrease)/increase in fair value of investments	<u>-</u>	<u>(2,541,582)</u>	<u>65,475</u>	<u>(2,476,107)</u>
At December 31, 2018	7,276,708	14,248,864	5,668,353	27,193,925
Cost of investments purchased	2,393,600	-	205,900	2,599,500
Proceeds from sales and maturities	(3,699,545)	-	-	(3,699,545)
Realized gains on sales of investments (Note 17)	-	-	-	-
Increase in fair value of investments	<u>-</u>	<u>-</u>	<u>76,023</u>	<u>76,023</u>
At December 31, 2019	<u>\$ 5,970,763</u>	<u>\$ 14,248,864</u>	<u>\$ 5,950,276</u>	<u>\$ 26,169,903</u>

The Company’s portfolio of investments is located in The Bahamas.

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### 7. INVESTMENTS (CONTINUED)

#### Fair value measurement

In accordance with IFRS 13 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and are actively traded on recognized exchanges;
- 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); and
- 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).

In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income (loss), purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions, if material. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.

Specific valuation techniques used to fair value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- Other techniques, such as discounted cash flow analyses, are used to determine fair value for the remaining financial instruments.

Significant unobservable inputs for a discount cash flow analysis are cashflows and the discount rate. We have disclosed earlier in this note, the undiscounted cash flows and ranges for interest rates for available-for-sale securities. There were no level 3 investments during 2019 and 2018.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 7. INVESTMENTS (CONTINUED)

The following table presents the Company's financial assets measured at fair value at December 31, 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial assets designated at fair value through profit or loss:				
Equity securities	\$ 14,248,864	\$ -		\$ 14,248,864
Total	<u>14,248,864</u>	<u>-</u>		<u>14,248,864</u>
Available-for-sale financial assets:				
Fixed income debt securities	-	1,970,000		1,970,000
Mutual fund	-	2,180,276		2,180,276
Preference shares	-	1,800,000		1,800,000
Total	<u>-</u>	<u>5,950,276</u>		<u>5,950,276</u>
Total financial assets measured at fair value	<u>\$ 14,248,864</u>	<u>\$ 5,950,276</u>		<u>\$ 20,199,140</u>

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

The following table presents the Company's financial assets measured at fair value at December 31, 2018 by the level in the fair value hierarchy into which the fair value measurement is categorized.

	<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial assets designated at fair value through profit or loss:				
Equity securities	\$ 14,248,864	\$ -		\$ 14,248,864
Total	<u>14,248,864</u>	<u>-</u>		<u>14,248,864</u>
Available-for-sale financial assets:				
Fixed income debt securities	-	1,970,000		1,970,000
Mutual fund	-	1,898,353		1,898,353
Preference shares	-	1,800,000		1,800,000
Total	<u>-</u>	<u>5,668,353</u>		<u>5,668,353</u>
Total financial assets measured at fair value	<u>\$ 14,248,864</u>	<u>\$ 5,668,353</u>		<u>\$ 19,917,217</u>

There were no transfers between the various levels during 2018.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 8. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of amounts receivable from insurance agents that have signed agency agreements with the Company.

	2019	2018
Trade accounts receivable	\$ 12,396,372	\$ 10,111,142
Provision for bad debts:		
Balance at January 1	-	-
Balance at December 31	<u>-</u>	<u>-</u>
Trade accounts receivable, net	<u>\$ 12,396,372</u>	<u>\$ 10,111,142</u>

Ageing of trade accounts receivable, net is as follows:

	2019	2018
Less than 3 months	\$ 11,274,730	\$ 9,238,697
3-6 months	<u>1,121,642</u>	<u>872,445</u>
	<u>\$ 12,396,372</u>	<u>\$ 10,111,142</u>

### 9. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

The movement in the deferred/unearned insurance assets and liabilities are as follows:

	<u>Insurance Assets</u>		<u>Insurance Liabilities</u>	
	<u>Deferred Reinsurance Premiums</u>	<u>Deferred Commission Costs</u>	<u>Unearned Premiums</u>	<u>Unearned Commission Income</u>
Balance at December 31, 2017	\$ 23,670,996	\$ 6,355,721	\$ (35,702,045)	\$ (6,323,415)
Movement during the year	<u>1,719,231</u>	<u>148,012</u>	<u>(1,422,600)</u>	<u>(106,575)</u>
Balance at December 31, 2018	25,390,227	6,503,733	(37,124,645)	(6,429,990)
Movement during the year	<u>1,442,129</u>	<u>104,917</u>	<u>(1,788,026)</u>	<u>(392,447)</u>
Balance at December 31, 2019	<u>\$ 26,832,356</u>	<u>\$ 6,608,650</u>	<u>\$ (38,912,671)</u>	<u>\$ (6,822,437)</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 10. UNPAID CLAIMS AND CLAIMS INCURRED

	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
Unpaid claims at December 31, 2017	\$ 40,160,774	\$ (25,838,596)	\$ 14,322,178
Claims incurred	26,372,498	(17,949,858)	8,422,640
Claims paid	<u>(24,783,404)</u>	<u>15,193,469</u>	<u>(9,589,935)</u>
Unpaid claims at December 31, 2018	41,749,868	(28,594,985)	13,154,883
Claims incurred	389,310,399	(370,929,500)	18,380,899
Claims paid	<u>(197,448,763)</u>	<u>180,951,398</u>	<u>(16,497,365)</u>
Unpaid claims at December 31, 2019	<u>\$ 233,611,504</u>	<u>\$ (218,573,087)</u>	<u>\$ 15,038,417</u>

The table below shows the development of claims over a period of time on a gross basis. The table shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

	<u>Accident Years</u>					<b>Total</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
Gross claims incurred at end of reporting year	\$ 26,210,000	\$ 109,630,183	\$ 19,650,250	\$ 28,081,559	\$ 382,372,925	
One year later	25,383,189	103,764,574	25,141,482	31,391,660		
Two years later	23,466,145	103,537,802	27,542,140			
Three years later	24,491,321	103,824,048				
Four years later	24,763,457					
Total incurred to date	24,763,457	103,824,048	27,542,140	31,391,660	382,372,925	
Cumulative payments to date	<u>(21,601,536)</u>	<u>(98,315,956)</u>	<u>(18,282,448)</u>	<u>(19,363,083)</u>	<u>(188,135,716)</u>	
Liability included in statement of financial position	<u>\$ 3,161,921</u>	<u>\$ 5,508,092</u>	<u>\$ 9,259,692</u>	<u>\$ 12,028,577</u>	<u>\$ 194,237,209</u>	\$ 224,195,491
Reserves for prior years						<u>9,416,013</u>
Total unpaid claims including amounts recoverable from reinsurers in the statement of financial position						<u>\$ 233,611,504</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 11. INVESTMENT PROPERTY

#### Restatement due to an accounting error

During 2019, the Company noted errors pertaining to the classification of non-owner occupied property as property and equipment in the statement of financial position. In 1999, the Company moved out of the R.H. Symonette building which it owns, and leased it to another entity within the Group. After vacating the building and commencing a lease with a related party, the property ceased to qualify as property and equipment in accordance with IAS 16 and qualified as investment property in accordance with IAS 40.

Management has now determined in retrospect, that the Company should reclassify this building as investment property and all depreciation previously expensed should be reversed. Further, pursuant to the Company's policy, investment property should be carried at fair value with the changes in fair value recorded in profit or loss.

In September 2016, the building was appraised at \$2,000,000 and appraised again in September 2019 at \$2,100,000. A series of prior period adjustments have been made to correct this error as outlined below:

	<u>As at December 31, 2018</u>	<u>Adjustment</u>	<u>As at December 31, 2018</u>
<u>Statement of financial position items:</u>	As previously reported		Restated
Investment property	\$0	\$2,000,000	\$2,000,000
Property and equipment	\$9,195,585	(\$1,852,608)	\$7,342,977
Revaluation surplus	\$2,428,675	\$ (1,501,125)	\$927,550
Retained earnings	\$22,396,445	\$ 1,648,517	\$24,044,962

	<u>As at January 1, 2018</u>	<u>Adjustment</u>	<u>As at January 1, 2018</u>
<u>Statement of financial position items:</u>	As previously reported		Restated
Investment property	\$0	\$2,000,000	\$2,000,000
Property and equipment	\$9,443,713	(\$1,918,116)	\$7,525,597
Revaluation surplus	\$2,703,588	(\$1,501,125)	\$1,202,463
Retained earnings	\$19,503,853	\$ 1,583,009	\$21,086,862

	<u>For the year ended 2018</u>	<u>Adjustment</u>	<u>For the year ended 2018</u>
<u>Statement of profit or loss and other comprehensive income items:</u>	As previously reported		Restated
Depreciation (Note 12)	\$259,496	(\$65,508)	\$193,988
Profit for the year	\$2,892,592	\$65,508	\$2,958,100
Total comprehensive income for the year	\$2,617,679	\$65,508	\$2,683,187

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED) (Expressed in Bahamian dollars)

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### 11. INVESTMENT PROPERTY (CONTINUED)

The movement of investment property for the year is as follows:

	<b>Income generating property</b>
Balance at December 31, 2017, as previously reported	\$ -
Correction of error	<u>2,000,000</u>
Restated balance at January 1, 2018	2,000,000
Net increase in fair value of investment property	<u>-</u>
Balance at December 31, 2018	2,000,000
Net increase in fair value of investment property (note 17)	<u>100,000</u>
Balance at December 31, 2019	<u>\$ 2,100,000</u>

In September 2019, the investment property was revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings are derived from capitalized income projections based on a property's estimated net market income adjusted for vacancies, and a discount rate derived from an analysis of market evidence. There has been no change in the valuation technique during the year. The fair value measurement of the Company's land and building is categorized in Level 3 in the fair value hierarchy as inputs are generally unobservable.

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

<u>Estimate/Assumption</u>	<u>Change</u>	<u>Impact on fair value</u>
Rental Revenue (\$27 sq. ft)	5.00%/-5.00%	\$107,987/(\$107,987)
Vacancy rates (5%)	5.00%/-5.00%	(\$113,670)/\$113,670
Discount rate (9%)	1.00%/-1.00%	(\$212,605)/\$265,757

Rental income of \$208,949 (2018: \$208,949) derived from investment property is recognized in other income in the statement of profit or loss.



# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 12. PROPERTY AND EQUIPMENT

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

<b>2019</b>	<b>Land &amp; Buildings</b>	<b>Leasehold Improvements, Furniture and Equipment</b>	<b>Total</b>
<b>COST/VALUATION:</b>			
At December 31, 2018	\$ 8,634,153	\$ 345,047	\$ 8,979,200
Additions	<u>-</u>	<u>148,048</u>	<u>148,048</u>
At December 31, 2019	<u>8,634,153</u>	<u>493,095</u>	<u>9,127,248</u>
<b>ACCUMULATED DEPRECIATION:</b>			
At December 31, 2018	1,346,254	289,969	1,636,223
Revaluation of Land and Buildings (Note 16)	(1,155,821)	-	(1,155,821)
Charge for the year	<u>191,419</u>	<u>29,276</u>	<u>220,695</u>
At December 31, 2019	<u>381,852</u>	<u>319,245</u>	<u>701,097</u>
<b>NET BOOK VALUE:</b>			
At December 31, 2019	<u>\$ 8,252,301</u>	<u>\$ 173,850</u>	<u>\$ 8,426,151</u>
<b>2018</b>	<b>Land &amp; Buildings Restated</b>	<b>Leasehold Improvements, Furniture and Equipment Restated</b>	<b>Total Restated</b>
<b>COST/VALUATION:</b>			
At December 31, 2017 as previously reported	10,634,153	333,679	10,967,832
Correction of error (Note 11)	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>
Restated balance at January 1, 2018 (Note 11)	\$ 8,634,153	\$ 333,679	\$ 8,967,832
Additions	<u>-</u>	<u>11,368</u>	<u>11,368</u>
At December 31, 2018	<u>8,634,153</u>	<u>345,047</u>	<u>8,979,200</u>
<b>ACCUMULATED DEPRECIATION:</b>			
At December 31, 2017 as previously reported	1,244,983	279,136	1,524,119
Correction of error (Note 11)	<u>(81,884)</u>	<u>-</u>	<u>(81,884)</u>
Restated balance at January 1, 2018 (Note 11)	1,163,099	279,136	1,442,235
Charge for the year as previously reported	248,663	10,833	259,496
Correction of error (Note 11)	<u>(65,508)</u>	<u>-</u>	<u>(65,508)</u>
Restated depreciation expense	<u>183,155</u>	<u>10,833</u>	<u>193,988</u>
At December 31, 2018	<u>1,346,254</u>	<u>289,969</u>	<u>1,636,223</u>
<b>NET BOOK VALUE:</b>			
At December 31, 2018	<u>\$ 7,287,899</u>	<u>\$ 55,078</u>	<u>\$ 7,342,977</u>

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 12. PROPERTY AND EQUIPMENT (CONTINUED)

In September 2019, the land and buildings were revalued to fair market value based on a valuation performed by an independent appraiser for financial statement purposes. The fair value of the land and buildings are derived from capitalized income projections based on a property's estimated net market income adjusted for vacancies, and a discount rate derived from an analysis of market evidence. There has been no change in the valuation technique during the year. The fair value measurement of the Company's land and building is categorized in Level 3 in the fair value hierarchy as inputs are generally unobservable.

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

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

<u>Estimate/Assumption</u>	<u>Change</u>	<u>Impact on fair value</u>
Rental Revenue (\$27/sq. ft)	5.00%/-5.00%	\$421,772/(\$421,772)
Vacancy rates (5%)	5.00%/-5.00%	(\$443,970)/\$443,970
Discount rate (9%)	1.00%/-1.00%	(\$830,389)/\$1,037,986

The net book value of the land and buildings, ignoring effects of revaluations would have been \$1,995,000 and 5,161,011 (2018: \$1,995,000 and \$5,312,806) respectively.

### 13. LEASES

The policy for leases entered into after January 1, 2019 is outlined in Note 3p. For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Company did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 13. LEASES (CONTINUED)

The Company leases an office space. The lease was initially agreed for a period of five years, but contained an option to renew for a further five years that was exercised.

Lease payments are renegotiated every three to five years to reflect market rentals. Previously, this lease was classified as an operating lease under IAS 17.

Information about leases for which the Group is a lessee is presented below:

2019	Office	
	premises	Total
Balance at 1 January	\$ 67,988	\$ 67,988
Depreciation charge for the year	\$ (20,919)	\$ (20,919)
<b>Balance at 31 December</b>	<b>\$ 47,069</b>	<b>\$ 47,069</b>

At 31 December 2019, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019
<b>Maturity analysis – Contractual undiscounted cash flows</b>	
Less than one year	23,400
Between one and five years	29,250
<b>Total undiscounted lease liabilities at 31 December</b>	<b>52,650</b>

### Extension options

Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 14. SHARE CAPITAL

The authorized share capital is 10,000,000 shares (2018: 10,000,000) with a par value of \$1.00 each; while issued and fully paid is 7,500,000 shares (2018: 7,500,000).

Dividends are accounted for in the period in which they are declared by the Company's Board of Directors. No dividends were declared or paid during 2019 or 2018.

### 15. GENERAL RESERVE

The Company has established a general reserve from retained earnings in the amount of \$3,500,000 (2018: \$3,500,000), which the Board of Directors have determined is not available for distribution.

### 16. REVALUATION RESERVE

The movement in the revaluation reserve is as follows:

	<u>Land &amp; Buildings</u>	<u>AFS Investments</u>	<u>Total</u>
Balance at December 31, 2017, as previously stated	\$ 2,145,360	\$ 558,228	\$ 2,703,588
Correction of error (Note 11)	<u>(1,501,125)</u>	<u>-</u>	<u>\$ (1,501,125)</u>
Restated balance at January 1, 2018	\$ 644,235	\$ 558,228	\$ 1,202,463
Decrease in fair value of AFS Investments	<u>-</u>	<u>(274,913)</u>	<u>(274,913)</u>
Other comprehensive loss	<u>-</u>	<u>(274,913)</u>	<u>(274,913)</u>
Restated balance at December 31, 2018	644,235	283,315	927,550
Revaluation of land and buildings (Note 12)	1,155,821	-	1,155,821
Increase in fair value of AFS Investments	<u>-</u>	<u>76,023</u>	<u>76,023</u>
Other comprehensive income	<u>1,155,821</u>	<u>76,023</u>	<u>1,231,844</u>
Balance at December 31, 2019	<u>\$ 1,800,056</u>	<u>\$ 359,338</u>	<u>\$ 2,159,394</u>

In accordance with the Company's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. Freehold land and buildings were independently valued in September, 2019. The next appraisal is due in 2022 or when the fair value of a revalued asset differs materially from its carrying amount due to the current economic condition, whichever is earlier.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

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### 17. OTHER INCOME

Other income is as follows:

	<b>2019</b>	<b>2018</b>
Interest income - loans and receivables	\$ 372,702	\$ 416,632
Interest income - available for sale	225,500	236,281
Interest income - bank deposits	-	54,891
Dividend income - equity securities	316,641	348,624
Rental income (Note 20)	319,444	319,444
Realized gains on sales of investments (Note 7)	-	1,198,956
Other income	87,511	20,188
Fair value adjustment to investment property	<u>100,000</u>	<u>-</u>
	<u>\$ 1,421,798</u>	<u>\$ 2,595,016</u>

### 18. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to \$420,000 (2018: \$486,000). This bonus amount was approved by the Board of Directors.

### 19. PENSION PLAN

The majority of the Company's employees participate in a defined contribution pension plan into which the Company contributes 3% to 5% per annum of base salary. The Company paid contributions for the year amounting to \$82,437 (2018: \$84,978), which is included in salaries, benefits and bonuses in the statement of profit or loss.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

(Expressed in Bahamian dollars)

### 20. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	<b>2019</b>	<b>2018</b>
Gross premiums written for the year	\$ 50,709,027	\$ 46,893,299
Commission expense paid for the year	\$ 8,254,810	\$ 9,309,661
Management fees paid to Bahamas First Corporate Services Ltd.	\$ 3,063,419	\$ 2,772,560
Rental income received from NUA and FRL (Note 17)	\$ 319,444	\$ 319,444
Directors fees paid	\$ 20,000	\$ 20,000
Trade accounts receivable from agents	\$ 991,376	\$ 1,334,351
Receivables from Parent and related companies	\$ 33,750,766	\$ 27,806,575

Key management personnel include members of the Company's management team having authority and responsibility for planning, directing and controlling the activities of the Company's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the statement of profit or loss as follows:

	<b>2019</b>	<b>2018</b>
Salaries and benefits	\$ 716,210	\$ 753,003
Post retirement benefits	30,175	29,100
	<u>\$ 746,385</u>	<u>\$ 782,103</u>
Receivables from key management personnel	<u>\$ 22,062</u>	<u>\$ -</u>

Receivables from key management personnel are interest free and unsecured with no fixed terms of repayment and are included in sundry receivables and prepayments in the statement of financial position.

# BAHAMAS FIRST GENERAL INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 (CONTINUED)

*(Expressed in Bahamian dollars)*

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### **21. CONTINGENCIES**

In the normal course of its business, the Company is involved in various legal proceedings arising out of and incidental to its operations. The Company is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operation or cashflows of the Company.

### **22. SUBSEQUENT EVENTS**

The spread of coronavirus (“COVID-19”) around the world in the first quarter of 2020 has caused significant volatility in the Bahamas as well as the global community. The Bahamian government’s response to restrict domestic and international travel and the reduced number of businesses permitted to operate, presents new challenges to the economic environment of the Company. A lot of uncertainty remains and so it is difficult to determine the precise impact on the Company. However, the expectation is that there will be a negative impact on premiums and the timing of receipt of cashflows. So, while it is assumed there will be some impact to the Company, the significant uncertainty around the breadth and duration of business disruptions related to COVID-19 precludes the Company from determining the extent of the impact on its operations and financial position.

The Company has however prepared an assessment of its revised operating and cash flow forecasts for calendar year 2020 using various scenarios, including a conservative analysis, and has concluded that it has sufficient equity and liquidity to meet its regulatory capital requirement and obligations as they become due, under these scenarios.

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