THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Insurance Company of the West Indies Limited ("the company"), set out on pages 4 to 63, which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in shareholder's 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 give a true and fair view of the financial position of the company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Jamaican Companies Act.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholder of
THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Report on the Audit of the Financial Statements (continued)

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 that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Shareholder of
THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.

Report on Additional Matters as Required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

March 30, 2020

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Statement of Financial Position
December 31, 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Property, plant and equipment	7	662,390	623,210
Right-of-use assets	8	248,141	-
Investment properties	9	57,200	45,200
Investment in subsidiary	10	4,013	4,013
Due from immediate parent company	11	361,312	343,003
Due from fellow subsidiaries	11	10,623	24,771
Due from related company	11	41,301	44,203
Deferred taxation	21	76,517	68,946
Investments	12	2,210,005	2,137,663
Resale agreements	13	946,507	1,051,464
Reinsurance assets	14	2,743,797	2,481,257
Taxation recoverable		31,136	48,481
Insurance receivables	15	343,083	302,884
Deferred commission expense	16	283,277	255,173
Other accounts receivables	17	71,275	87,359
Accrued investment income		14,381	25,841
Cash and cash equivalents	18	442,180	306,845
Total assets		8,547,138	7,850,313
LIABILITIES AND SHAREHOLDER'S EQUITY			
Other payables and accrued charges	19	432,592	390,461
Insurance payables	20	503,509	597,678
Insurance contract provisions	14	5,163,360	4,801,044
Lease liabilities	8	255,839	-
Due to fellow subsidiaries	11	222	2,966
Employee benefit obligation	22	155,742	152,740
		6,511,264	5,944,889
Share capital	23(a)	260,237	213,237
Share premium	23(b)	66,763	66,763
Capital reserve	23(c)	2,662	2,662
Investment revaluation reserve	23(d)	38,188	16,981
Retained earnings		1,668,024	1,605,781
		2,035,874	1,905,424
Total liabilities and equity		8,547,138	7,850,313

The financial statements on pages 4 to 63 were approved by the Board of Directors on March 30, 2020 and signed on its behalf by:

____________________ Director
Hon. Dennis H. Lalor

Mark Roberts ____________________ Director
Mark Roberts

The accompanying notes form an integral part of the financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2019

	Notes	2019 $'000	2018 $'000
Gross premiums written	14	5,565,991	4,967,785
Change in gross provision for unearned premiums		(243,900)	(180,726)
Gross insurance premium revenue	14	5,322,091	4,787,059
Written premiums ceded to reinsurers	14	(3,262,280)	(2,842,249)
Reinsurers' share of change in provision for unearned premiums		161,271	112,462
Net insurance premium revenue	14	2,221,082	2,057,272
Claims expenses incurred	14	(2,834,594)	(2,032,095)
Reinsurers' share of claims	14	1,616,742	972,831
Net insurance claims	14	(1,217,852)	(1,059,264)
Commission income	20	1,159,635	1,043,444
Commission expenses	16	(635,635)	(560,749)
Net commission income		524,000	482,695
		1,527,229	1,480,703
Operating expenses	24(c)	(1,529,668)	(1,457,334)
Underwriting (loss)/profit before other income, expenses and taxation	24(a)	(2,439)	23,369
Lease expense on lease liabilities	8(c)	(20,093)	-
Investment income	25	114,482	119,986
Foreign exchange gain		51,400	28,291
(Loss)/gain on disposals of property, plant and equipment		(788)	1,824
Other income		33,007	39,560
Profit before taxation		175,569	213,030
Taxation	26	(71,052)	(52,358)
Profit for the year		104,517	160,672
Other comprehensive income			
Items that may be reclassified to profit or loss			
Appreciation in fair value of investments		21,207	6,160
Items that will not be reclassified to profit or loss			
Remeasurement gain on employee benefit obligation	22	7,089	7,118
Deferred tax	21	(2,363)	(2,372)
		4,726	4,746
Other comprehensive income for the year, net of tax		25,933	10,906
Total comprehensive income for the year		130,450	171,578

The accompanying notes form an integral part of the financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Statement of Changes in Shareholder's Equity
Year ended December 31, 2019

	Share capital $'000 [note 23(a)]	Share premium $'000 [note 23(b)]	Capital reserve $'000 [note 23(c)]	Investment revaluation reserve $'000 [note 23(d)]	Retained earnings $'000	Total $'000
Balances at December 31, 2017	213,237	66,763	2,662	10,821	1,440,363	1,733,846
Total comprehensive income:						
Profit for the year	-	-	-	-	160,672	160,672
Other comprehensive income:						
Appreciation in fair value of investments	-	-	-	6,160	-	6,160
Re-measurement gain on employee benefit obligation, net of taxes	-	-	-	-	4,746	4,746
Total comprehensive income for the year	-	-	-	6,160	165,418	171,578
Balances at December 31, 2018	213,237	66,763	2,662	16,981	1,605,781	1,905,424
Total comprehensive income:						
Profit for the year	-	-	-	-	104,517	104,517
Other comprehensive income:						
Appreciation in fair value of investments	-	-	-	21,207	-	21,207
Re-measurement loss on employee benefit obligation, net of taxes	-	-	-	-	4,726	4,726
Total comprehensive income for the year	-	-	-	21,207	109,243	130,450
Transactions with owners of the company						
Distribution to shareholder [note 23(e)]	-	-	-	-	(47,000)	-
Issue of shares [note 23(a)]	47,000	-	-	-	-	-
Balances at December 31, 2019	260,237	66,763	2,662	38,188	1,668,024	2,035,874

The accompanying notes form an integral part of the financial statements.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Statement of Cash Flows
Year ended December 31, 2019

	Notes	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		104,517	160,672
Adjustments for:			
Depreciation on property, plant and equipment	7	57,864	51,821
Depreciation on right-of-use assets	8(a)	66,207	-
Loss/(gain) on disposals of property, plant and equipment		788	(1,824)
Write-offs of property, plant and equipment	7	3,136	-
Increase in fair value of investment properties	9	(12,000)	-
Reinsurance assets		(262,540)	98,300
Insurance contract provisions		362,316	(18,158)
Employee benefit obligation	22	15,531	16,881
Interest income	25	(94,611)	(112,287)
Interest expense on lease liabilities	8(c)	20,093	
Taxation	26	71,052	52,358
		332,353	247,763
Changes in:			
Insurance receivables		(40,199)	(31,070)
Deferred commission expenses		(28,104)	(30,613)
Other accounts receivables		16,084	(10,251)
Other payables and accrued charges		42,131	64,988
Insurance payables		(94,169)	90,199
		228,096	331,016
Interest received		106,071	118,475
Tax paid		(43,000)	(43,135)
Benefits paid	22	(5,440)	(5,134)
Withholding tax		(20,641)	(22,802)
Net cash provided by operating activities		265,086	378,420
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	7	(102,280)	(62,793)
Proceeds from sale of property, plant and equipment		1,312	1,876
Investments, net		53,822	(200,617)
Net cash used by investing activities		(47,146)	(261,534)
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution to shareholder	23(e)	(47,000)	-
Issuance of shares	23(a)	47,000	-
Payment of lease liabilities	8(d)	(78,602)	-
Due from immediate parent company		(18,309)	(149,003)
Due to related parties, net		14,306	53,484
Net cash used by financing activities		(82,605)	(95,519)
INCREASE IN CASH AND CASH EQUIVALENTS		135,335	21,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		306,845	285,478
CASH AND CASH EQUIVALENTS AT END OF YEAR		442,180	306,845

The accompanying notes form an integral part of the financial statements.

1. Corporate structure and nature of business

The Insurance Company of the West Indies Limited ('the company'), is incorporated in Jamaica under the Companies Act, is domiciled in Jamaica and is a wholly owned subsidiary of ICWI Group Limited (immediate parent), which is also incorporated in Jamaica. The ultimate holding company is Atlantic and Caribbean Sea Development Company Limited which is owned by Caribbean Sea Development Limited and Hon. Dennis Lalor O.J. and it is controlled by Hon. Dennis Lalor O.J.

The principal activity of the company is underwriting general insurance business. The registered office of the company is located at 2 St. Lucia Avenue, Kingston 5.

On July 2, 2014, the company received approval from The Insurance Commission of the Bahamas to convert The Insurance Company of the West Indies (Bahamas) Limited ("ICWI Bahamas") to a branch of the company. The company obtained approval from the Financial Services Commission in Jamaica to convert the subsidiary of the ICWI Group Limited, located in the Bahamas, ICWI Bahamas into a branch operation of the company on October 2, 2014. The insurance portfolio of ICWI Bahamas was transferred to the company with effect from January 1, 2015.

Effective July 1, 2017, the company converted its St. Maarten branch to a stand-alone operation in the name of The Insurance Company of the West Indies (Sint Maarten) B.V. ("ICWI BV"). On June 8, 2017, ICWI BV received a license from Centrale Bank Van Curacao En Sint Maarten to conduct non-life insurance business in Curacao and St. Maarten. On April 11, 2017, the company notified the Financial Services Commission in Jamaica of the planned conversion of the St. Maarten branch of the company into a stand-alone operation. Consequent on this transaction, ICWI BV became a wholly owned subsidiary of ICWI (Cayman) Ltd. ICWI (Cayman) Ltd. is a subsidiary of ICWI Group Limited. The insurance portfolio and assets and liabilities of the St. Maarten branch of the company were transferred to ICWI BV with effect from July 1, 2017.

On September 27, 2019, the company registered a branch of the company in the Commonwealth of Dominica. On September 30, 2019, the company received a license from the Commonwealth of Dominica Ministry of Finance, Financial Services Unit to conduct insurance business in Dominica. On August 14, 2019 the company notified the Financial Services Commission in Jamaica of its intention to open a branch in the Commonwealth of Dominica. The company commenced writing general insurance business in November 2019.

The company is authorised to transact business in the following Caribbean Islands:

- Jamaica
- Trinidad
- Bahamas
- Dominica

2. Insurance licence

The company is registered under the Insurance Act 2001 (the Act).

3. Roles of the actuary and auditors

The actuary has been appointed by the Board of Directors pursuant to the Act. With respect to the preparation of financial statements, the actuary is required to carry out an actuarial valuation of management's estimate of the company's policy liabilities and report thereon to the shareholder. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs.

The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive that may be made by regulatory authorities. The actuary, in his verification of the management information provided by the company and used in the actuarial valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the shareholder pursuant to the Jamaican Companies Act to conduct an independent audit of the financial statements of the company in accordance with International Standards on Auditing and to report thereon to the shareholder. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

4. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations issued by the International Accounting Standards Board, and comply with the provisions of the Jamaican Companies Act ('the Act").

New and amended standards that came into effect during the current financial year:

Certain new and amended standards that were in issue came into effect during the current financial year. This is the first set of the company's annual financial statements in which IFRS 16, *Leases* has been applied from January 1, 2019. A number of other new standards and interpretations are also effective January 1, 2019 but they do not have a material effect on the company's financial statements. Changes to significant accounting policies are described in note 5.

New and amended standards and interpretations not yet effective:

At the date of approval of the financial statements, there were certain new and amended standards and interpretations to existing standards, which were in issue, but were not yet effective and had not been early adopted by the company. Those which management considered may be relevant to the company are as follows:

4. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New and amended standards and interpretations not yet effective (cont'd):

- IFRS 17 – *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2021 (although the IASB proposed to defer the effective date until January 1, 2022), replaces IFRS 4 *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

  The key principles in IFRS 17 are that an entity:

  - Identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
  - Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
  - Recognises and measures groups of insurance contracts at:

    a) a risk - adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); and

    b) an amount representing the unearned profit in the group of contracts (the contractual service margin)
  - Recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss-making, an entity recognizes the loss immediately.
  - Presents separately insurance revenue (that excludes the receipt of repayment of any investment components) and insurance finance income or expenses;
  - Includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.
  - Many of the disclosures of IFRS 4 are kept in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

4. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New and amended standards and interpretations not yet effective (cont'd):

- Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides the following definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*"

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

  The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

  – New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;

  – A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.

  – A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

- IFRS 9 Financial Instruments - As an insurance company, the company has exercised the option to defer the effective date of the new standard to January 1, 2022, in line with IFRS 17 *Insurance Contracts* [See note 6(o)(iv)]. The standard includes requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting.

4. Statement of compliance and basis of preparation (cont'd)

(a) Statement of compliance (cont'd):

New and amended standards and interpretations not yet effective (cont'd):

- Amendments to IFRS 9 *Financial Instruments,* effective retrospectively for annual reporting periods beginning on or after January 1, 2019 clarifies the treatment of:

    (i) Prepayment features with negative compensation:

    Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

    (ii) Modifications to financial liabilities:

    If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

    As disclosed in note 6(o)(iv), the company has exercised the option to defer the effective date of the adoption of IFRS 9 to January 1, 2022.

The company is assessing the impact that these new and amended standards, and interpretations will have on its financial statements when they become effective.

(b) Basis of preparation and measurement:

The financial statements are prepared on the historical cost basis, except for investment properties [see note 6(b)] and available-for-sale investments [see note 6(c)], which are measured at fair value and employee benefit obligation which is measured as the present value of the defined-benefit obligation as explained in note 6(l).

(c) Basis of non-consolidation

The company elects not to prepare consolidated financial statements including its subsidiary Insurance Company of Jamaica Limited on the basis that consolidated financial statements are prepared by Atlantic & Caribbean Sea Development Limited (see note 10).

(d) Functional and presentation currency

These financial statements are presented in Jamaica dollars, the company's functional currency. The values presented in the financial statements have been rounded to the nearest thousands ($'000) unless otherwise stated.

4. Statement of compliance and basis of preparation (cont'd)

(e) Use of estimates and judgement:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expense for the year then ended. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default or adverse economic conditions. Management makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

(ii) Outstanding claims [see note 6(o)(i)].

(iii) Post-retirement health and life insurance benefits:

The amounts recognised in the statement of financial position and profit or loss for post-retirement health and life insurance benefits to certain pensioners, are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

4. Statement of compliance and basis of preparation (cont'd)

(e) Use of estimates and judgement (cont'd):

(iv) Fair value of investment properties:

Investment properties are carried in the statement of financial position at market value. It is the company's policy to use independent qualified property appraisers to value its investment properties, generally using the open market value.

This approach takes into consideration various assumptions and factors, including the level of current and future occupancy, the rate of annual rent increases, the rate of inflation of direct expenses, the appropriate discount rate, and the current condition of the properties together with an estimate of future maintenance and capital expenditures. Reference is also made to recent comparable sales. A change in any of these assumptions and factors could have a significant impact on the valuation of investment properties.

5. Change in significant accounting policy

The company has initially applied IFRS 16 *Leases* from January 1, 2019. Except for the changes below, the company has consistently applied the accounting policies as set out in note 6 to all periods presented in these financial statements.

The company applied IFRS 16 using the modified retrospective approach, under which the right-of-use assets are equivalent to the lease liabilities, thereby no adjustment were recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) *Definition of a lease*

Previously, the company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*, issued by IFRS Interpretations Committee (IFRIC). The company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 6 (p)

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

5. Change in significant accounting policy (cont'd)

IFRS 16 *Leases* (cont'd)

(b) *As a lessee*

As a lessee, the company leases many assets including property from which its branches operate and motor vehicles. The company previously classified leases as operating based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company. Under IFRS 16, the company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property, the company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the company classified property and motor vehicle leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at January 1, 2019 (see note 8). The company opted for the measurement of the right-of-use assets equivalent to the lease liabilities at transition date as permitted by IFRS 16 transition options.

The company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application (eg. Motor vehicles);
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

5. Change in significant accounting policy (cont'd)

IFRS 16 *Leases* (cont'd)

(c) *As a lessor*

The company leases out its investment properties, being own property. The company has classified these leases as operating leases.

The company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The company does not sub-lease any of its properties.

The company has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

(d) *Impact on transition*

On transition to IFRS 16, the company recognised additional right-of-use assets and additional lease liabilities, at the same amount, thereby, no adjustment was made to the retained earnings at transition. The impact on transition is summarised below.

	January 1, 2019 $'000
Right-of-use assets	291,257
Lease liabilities	(291,257)
Retained earnings	-

For the impact of IFRS 16 on profit or loss for the year, see note 8. For the details of accounting policies under IFRS 16 and IAS 17, see note 6(p).

When measuring lease liabilities for leases that were classified as operating leases, the company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 7.75%

	January 1, 2019 $'000
Operating lease commitments at December 31, 2018 as disclosed under IAS 17 in the company's financial statements	4,265
Discounted using the incremental borrowing rate at January 1, 2019	3,958
Recognition exemption for leases with less than 12 months of lease term at transition	(3,958)
Extension options reasonably certain to be exercised	291,257
Lease liabilities recognised at January 1, 2019	291,257

6. Significant accounting policies

(a) Property, plant and equipment:

(i) Property, plant and equipment are measured at cost or deemed cost, less accumulated depreciation and impairment losses [see accounting policy 6(k)].

Freehold land and buildings that had been revalued to fair value prior to January 1, 2002, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

(ii) Depreciation:

Property, plant and equipment with the exception of freehold land and work-in-progress, on which no depreciation is provided, are depreciated using the straight-line method at annual rates estimated to write-off the property, plant and equipment over their expected useful lives.

The annual depreciation rates are as follows:

Buildings	2½%
Leasehold improvements	10%
Furniture, fixtures and equipment	10% & 20%
Motor vehicles	20%
Computers	20%

The depreciation methods, useful lives and residual values are reassessed annually at each reporting date and adjusted as appropriate.

(b) Investment properties:

Investment properties are carried at fair value using valuations performed on an annual basis by independent appraisers or the directors. Fair value is based on current prices for properties similar in location and conditions. Changes in the fair value of investment properties are recognised in profit or loss.

(c) Investments:

Available-for-sale investments are measured at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost, with any movements in fair value included in investment revaluation reserve. Investments with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables, and are measured at amortised cost less impairment losses.

The fair value of available-for-sale investments is based on their quoted market bid price at the reporting date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

6. Significant accounting policies

(c) Investments (cont'd):

Available-for-sale investments are recognised or derecognised by the company on the date they commit to purchase or sell the investments.

Other investments are recognised or derecognised on the day they are transferred to/by the company.

(d) Securities purchased under resale agreements:

Securities purchased under resale agreements ("reverse repos") are short-term transactions whereby an entity buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred unless the counterparty fails to comply with the terms of the contract.

Reverse repos are accounted for as short-term collateralised lending, classified as loans and receivables and measured at amortised cost.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

(e) Related parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 – *Related Party Disclosures* as the "reporting entity").

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

6. Significant accounting policies (cont'd)

(e) Related parties (cont'd):

(b) An entity is related to a reporting entity if any of the following conditions applies (cont'd):

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity or any member of a group which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The company has a related party relationship with its ultimate and intermediate holding companies, the directors of the company and those of its holding companies, its key management personnel, companies with common directors, its subsidiary and pension plans established for the benefit of its employees. "Key management personnel" represents certain senior officers of the company.

(f) Insurance and other accounts receivables:

Insurance and other accounts receivables are measured at cost less impairment losses [see accounting policy 6(k)].

(g) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and are measured at amortised cost.

(h) Insurance and other payables:

Insurance and other payables are measured at amortised cost.

6. Significant accounting policies (cont'd)

(i) Provisions:

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligations.

(j) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Jamaica dollars at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in profit or loss are treated as cash items and included in cash flows from operating or financing activities along with movements in the principal balances.

(k) Impairment:

Objective evidence that financial assets are impaired can include default or delinquency by a customer, indications that a customer will enter bankruptcy and changes in the payment status of customers.

The carrying amount of the company's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at the reporting date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less impairment loss on that financial asset previously recognised in profit or loss.

6. Significant accounting policies (cont'd)

(k) Impairment (cont'd):

(i) Calculation of recoverable amount:

The recoverable amount of the company's loans and receivables is calculated as the present value of the expected future cash flows, discounted at the original effective interest rate inherent in the assets.

Receivables with a short duration are not discounted. Impairment losses in respect of an available-for-sale investment is calculated by reference to its current fair value.

The recoverable amount of the other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment:

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale investment recognised previously in other comprehensive income is transferred to profit or loss. For available-for-sale equity securities, the reversal is recognised in other comprehensive income.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment loss no longer exists and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

(l) Employee benefits:

Employee benefits are all forms of consideration given by the company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, statutory contributions, annual vacation leave and non-monetary benefits such as post-employment benefits related to pension and health and life insurance.

6. Significant accounting policies (cont'd)

(l) Employee benefits (cont'd):

Employee benefits that are earned as a result of past or current service are recognised in the following manner:

(i) Post retirement health and life insurance benefits:

Employee benefits comprising post-employment medical benefits included in these financial statements have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion.

The actuarial valuations were conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors have relied on the work of the actuary and the actuary's report.

The company provides post retirement health and life insurance benefits to retirees. In 2006, the company revised its policy to provide post retirement health and life insurance benefits to persons employed on or before April 20, 2006.

The company's net obligation in respect of post retirement health and life insurance benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted.

The discount rate is determined based on the estimate of yield at the reporting date on long-term government securities that have maturity dates approximating the terms of the company's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit Method.

Re-measurements of the net employee benefit liability, which comprise actuarial gains and losses are recognized immediately in other comprehensive income. The company determines the net interest expense/(income) on the net employee benefit liability for the period by applying the discount rate used to measure the employee benefit obligation at the beginning of the annual period to the then-net employee benefit liability, taking into account any changes in the net employee benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other post-retirement obligations expenses are recognised in profit or loss.

When the benefits of a plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The company recognises gains and losses on the settlement of an employee benefit plan when the settlement occurs.

6. Significant accounting policies (cont'd)

(l) Employee benefits (cont'd):

(ii) Defined contribution pension plan:

The company participates in a defined contribution pension plan, the assets of which are held separately from those of the company. The plan does not expose the company to actuarial risk, and as such, pension contributions are expensed as and when incurred.

(iii) Short-term employee benefits:

Short-term employee benefits are expressed as the related service is provided. Employee entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for vacation leave, as a result of services rendered by employees up to the reporting date. The Company recognises a provision for bonuses and other short-term employee benefits based on contractual or constructive obligations to pay these amounts as a result of past services provided by the employee and the obligation can be estimated reliably.

(m) Taxation:

Taxation on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. For investment properties that are measured at fair value, the presumption that the carrying amount of the investment properties will be recovered through sale has not been rebutted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

6. Significant accounting policies (cont'd)

(n) Revenue recognition:

Revenue is recognised in the statement of profit or loss when the significant risks and rewards of ownership have been transferred to the policyholder. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Revenue comprises the following:

(i) Gross premiums written:

The accounting policy for the recognition of revenue from insurance contracts is disclosed in note 6(o)(i).

(ii) Reinsurance assumed:

The accounting policy for the recognition of reinsurance assumed is disclosed in note 6(o)(i).

(iii) Commission income:

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts [see note 6(o)(i)]. Profit commission in respect of reinsurance contracts is recognised on the accrual basis.

(iv) Investment income:

Investment income arises from financial assets and is comprised of interest and dividends and realised gains/losses on financial assets. Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Rental income from investment properties under operating leases is recognised in profit or loss on a straight line basis over the term of each lease.

(o) Insurance contract recognition and measurement:

(i) Insurance contracts:

Insurance contracts are accounted for in compliance with recommendations and practices of the insurance industry, and comply with provisions of the Insurance Act 2001. The underwriting results are determined after making provision for, inter alia, unearned premiums, outstanding claims, deferred commission expense and deferred commission income.

Short term insurance contracts consist of property, liability, motor and marine insurance contracts.

6. Significant accounting policies (cont'd)

(o) Insurance contract recognition and measurement (cont'd):

(i) Insurance contracts (cont'd):

Gross premiums written:

Gross premiums reflect business written during the year, and include adjustments to premiums written in previous years. The earned portion of premiums is recognised as revenue. Premiums are earned from the effective date of the policy.

Reinsurance assumed:

The company assumes reinsurance risk on insurance contracts issued by a related party. Premiums and claims assumed on reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Unearned premiums:

Unearned premiums represent that proportion of the premiums written up to the reporting date which is attributable to subsequent periods and is calculated on the "three sixty fifth" basis on the total premiums written.

Outstanding claims:

Outstanding claims represents insurance contract provisions on the statement of financial position, which comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on the historical experience of the company. The loss and loss expense reserves have been estimated by the company's actuary using the past loss experience of the company and industry data. Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Management believes, based on the analysis completed by the actuary, that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. Any subsequent differences are recorded in the period in which they are determined.

6. Significant accounting policies (cont'd)

(o) Insurance contract recognition and measurement (cont'd):

(i) Insurance contracts (cont'd):

Deferred acquisition cost and deferred commission income:

Commission income and expense are deferred on a basis consistent with that used for deferring premium income.

(ii) Reinsurance assets:

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policy. Unearned reinsurance premiums on business ceded up to the accounting date which are attributable to subsequent periods are calculated substantially on the "three sixty fifth" basis on the total premiums ceded.

In the normal course of business the company seeks to reduce the loss that may result from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers (see note 27). Reinsurance ceded does not discharge the company's liability as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the company. Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit or loss.

(iii) Insurance receivables and insurance payables:

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables and not in insurance contract provisions or reinsurance assets.

(iv) Temporary exemption to defer the implementation of IFRS 9 *Financial Instruments:*

The company has applied the temporary exemption to defer the implementation of IFRS 9 *Financial Instruments*, as its activities met the requirements to demonstrate that they are predominantly in connection with issuing insurance contracts within the scope of IFRS 17 *Insurance contracts*.

6. Significant accounting policies (cont'd)

(o) Insurance contract recognition and measurement (cont'd):

(iv) Temporary exemption to defer the implementation of IFRS 9 *Financial Instruments (cont'd):*

The company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Eighty-one percent (81%) of the company's liabilities at December 31, 2015 were liabilities that arose from contracts within the scope of IFRS 17 and eight percent (8%) of the company's liabilities at December 31, 2015 were liabilities that arose because the company issues insurance contracts and fulfils obligations arising from insurance contracts. Additionally, the company has not previously applied any version of IFRS 9. Therefore, the company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at December 31, 2019, there has been no change in the company's activities.

(p) Leases:

The company has applied IFRS 16 using the modified retrospective approach and therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 5.

Policy applicable from January 1, 2019

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.

This policy is applied to contracts entered into, on or after January 1, 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

6. Significant accounting policies (cont'd)

(p) Leases (cont'd):

Policy applicable from January 1, 2019 (cont'd)

As a lessee (cont'd)

The company recognises 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 the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the company by the end of the lease term.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. 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 obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- 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 amortised 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.

6. Significant accounting policies (cont'd)

(p) Leases (cont'd):

Policy applicable from January 1, 2019 (cont'd)

As a lessee (cont'd)

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 right-of-use assets and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low-value assets

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and low-value assets. The company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Payments made under operating leases are included in profit or loss under operating expenses. Assets leased under operating leases are not included in the statement of financial position.

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

(q) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, investments, resale agreements and insurance receivables, other accounts receivables (excluding prepayments), amounts due from other insurance companies and related party balances. Financial liabilities include other payables and accrued charges, amounts due to other insurance companies, related party balances and lease liabilities.

(r) Determination of fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

6. Significant accounting policies (cont'd)

(s) Comparative information:

Wherever necessary, the comparative figures are reclassified to conform to current year's presentation.

(t) Share capital:

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

(u) Dividends:

Dividends are recognised as a liability in the period in which they are declared.

(v) Expenses:

Expenses are recognised in profit or loss on the accrual basis.

7. Property, plant and equipment

	Land, buildings and leasehold improvement	Furniture, fixtures, equipment and computers	Motor vehicles	Work-in-progress	Total
	$'000	$'000	$'000	$'000	$'000
At cost or deemed cost:					
December 31, 2017	585,862	240,874	41,756	21,126	889,618
Additions	5,858	9,913	17,519	29,503	62,793
Transfers	854	33,738	-	(34,592)	-
Disposals	-	(527)	(15,804)	-	(16,331)
December 31, 2018	592,574	283,998	43,471	16,037	936,080
Additions	2,788	8,323	6,807	84,362	102,280
Transfers	16,284	54,394	20,031	(90,709)	-
Write-offs	-	-	-	(3,136)	(3,136)
Disposals	(2,728)	(3,393)	(11,017)	-	(17,138)
December 31, 2019	608,918	343,322	59,292	6,554	1,018,086
Depreciation:					
December 31, 2017	108,823	131,994	36,511	-	277,328
Charge for the year	13,673	31,892	6,256	-	51,821
Eliminated on disposals	-	(475)	(15,804)	-	(16,279)
December 31, 2018	122,496	163,411	26,963	-	312,870
Charge for the year	14,157	36,342	7,365	-	57,864
Eliminated on disposals	(2,003)	(2,018)	(11,017)	-	(15,038)
December 31, 2019	134,650	197,735	23,311	-	355,696

7. Property, plant and equipment (cont'd)

	Land, buildings and leasehold improvement	Furniture, fixtures, equipment and computers	Motor vehicles	Work-in-progress	Total
	$'000	$'000	$'000	$'000	$'000
Net book values:					
December 31, 2019	474,268	145,587	35,981	6,554	662,390
December 31, 2018	470,078	120,587	16,508	16,037	623,210

Freehold land and buildings were revalued on October 28, 1997, at an open market valuation of $12,400,000 by Sagicor Property Management Limited, valuators and appraisers of Kingston. The revalued amounts have been deemed to be the assets' cost upon first-time adoption of IFRS. The previously reported surplus arising on revaluation is included in capital reserve [see note 23(c)].

Land, buildings and leasehold improvement include freehold land at a deemed cost/cost of $178,500,000 (2018: $178,500,000).

Furniture, fixtures and equipment were revalued at January 1, 1994, at an open market valuation of $63,056,000 by Sagicor Property Management Limited. The revalued amount was deemed to be the assets' cost upon first-time adoption of IFRS. The previously reported surplus arising on revaluation is included in capital reserve [see note 23(c)].

8. Leases

The company leases property for its branch operations. The term of the leases run for the period of one (1) to five (5) years. Some of these include an option to renew for an additional of the same or shorter duration after the end of the contract term, which the company is expected to exercise the renewal option. Previously, these leases were classified as operating leases under IAS 17. The company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and/or leases for which the lease term ends within 12 months of the date of initial application of IFRS 16.

Information about leases for which the company is a lessee is presented below.

(a) Right-of-use assets

	Property
	$'000
Balance at January 1, 2019	291,257
Additions	23,091
Depreciation charge for the year	(66,207)
Balance at December 31, 2019	248,141

8. Leases (cont'd)

Information about leases for which the company is a lessee is presented below. (cont'd)

(b) Lease liabilities

Maturity analysis – contractual undiscounted cash flows:

	2019 $'000
Less than one year	86,726
One to five years	292,986
Total undiscounted lease liabilities at December 31, 2019	379,712
Less future interest expense	(123,873)
	255,839
Current	80,870
Non-current	174,969
Lease liabilities included in the statement of financial position at December 31, 2019	255,839

Included in the above is a lease with a related party amounting to $32,431,000.

(c) Amount recognised in profit or loss

	2019 $'000
Interest on lease liabilities	20,093
Expenses relating to lease of low-value assets	348

(d) Amounts recognised in the statement of cash flows

	2019 $'000
Total cash outflow for leases	78,602

9. Investment properties

	2019 $'000	2018 $'000
Balance at January 1	45,200	45,200
Change in fair value	12,000	-
Balance at December 31	57,200	45,200

9. Investment properties (cont'd)

Investment properties comprise commercial properties that are leased to third parties and land held for capital appreciation. Investment properties are valued every three years by an independent professional valuer and in the intervening years by the directors, based on professional advice received.

Investment properties were valued in October 2019 by D.C. Tavares & Finson Realty Ltd.

The rental income earned on the properties during the year amounted to $7,871,000 (2018: $7,699,000) (see note 25) and the related expenses totalled $936,000 (2018: $772,000).

Changes in fair values are recognised as gains in statement of profit or loss and included in 'investment income'. All gains are unrealised.

The fair value measurement for investment properties of $57,200,000 (2018: $45,200,000) has been categorised as a level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring fair value as well as the significant unobservable inputs used.

Valuation techniques	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Market based approach: The approach is based on the principle of substitution whereby the purchaser with perfect knowledge of the property market pays no more for the subject property than the cost of acquiring an existing comparable property, assuming no cost delay in making the substitution. The approach requires comparison of the subject property with others of similar design and utility, inter alia, which were sold in the recent past. However as no two properties are exactly alike, adjustment is made for the difference between the property subject to valuation and comparable properties.	• Details of the sales of comparable properties • Conditions influencing the sale of the comparable properties. • Comparability adjustment.	The estimated fair value would increase/(decrease) if: • Sale value of comparable properties were higher/(lower). • Comparability adjustment were higher/(lower).

10. Investment in subsidiary

	2019 $'000	2018 $'000
Shares, at cost	4,013	4,013

The subsidiary, which is incorporated in Jamaica, and is non-trading, is as follows:

	% of equity capital held	
	2019	2018
Insurance Company of Jamaica Limited	100	100

11. Related party balances/transactions

(a) The statement of financial position includes balances, arising in the ordinary course of business with related parties, as follows:

	2019 $'000	2018 $'000
(i) Due from immediate parent company:		
ICWI Group Limited	361,312	343,003
(ii) Due from fellow subsidiaries:		
Turks & Caicos First Insurance Company Limited	423	313
The Great Northern Insurance Company Ltd.	1,451	5,865
The Insurance Company of the West Indies (Cayman) Limited	8,499	4,340
The Insurance Company of the West Indies (Bahamas) Limited	35	12,118
The Insurance Company of the West Indies (Sint Maarten) B.V.	-	2,135
GPI Limited	215	-
	10,623	24,771
(iii) Due from related company:		
REACT Limited – common director	41,301	44,203
(iv) Due to fellow subsidiaries:		
The Insurance Company of the West Indies (Sint Maarten) B.V.	222	-
GPI Limited	-	2,966
	222	2,966

Related party balances are interest free, unsecured and are repayable on demand.

11. Related party balances/transactions (cont'd)

(b) The statement of profit or loss includes the following income earned from, and expenses incurred in, transactions with related parties. The transactions were in the ordinary course of business.

		2019 $'000	2018 $'000
Corporate office expenses	- immediate parent company	30,000	30,000
Other charges	- related company (common director)	44,456	52,917
Lease expense	- related company (common director)	4,265	10,703
Gross premiums written	- immediate parent company	(13)	(13)
	- related company (common director)	(15,313)	(8,752)
	- related parties (directors and common director)	(10,628)	(12,165)
Claims expenses	- related parties (directors and common director)	20,726	32,688
Commission expense	- fellow subsidiary	186,241	161,525

12. Investments

	2019 $'000	2018 $'000
Loans and receivables:		
Certificates of deposits	1,708,722	1,468,456
Government of Jamaica Securities:		
- Debentures	30,000	321,738
Government of Trinidad and Tobago Securities:		
- Debentures	148,113	207,198
	1,886,835	1,997,392
Available-for-sale investments:		
Corporate bond	200,000	60,794
Mutual fund	20,106	14,998
Unquoted investments	599	599
Quoted investments	102,465	63,880
	323,170	140,271
	2,210,005	2,137,663

Investments, excluding interest receivables, are due from the reporting date as follows:

	2019 $'000	2018 $'000
Certificates of deposits:		
Within 3 months	1,178,393	895,077
From 3 months to 1 year	530,329	573,379
	1,708,722	1,468,456

12. Investments (cont'd)

Investments, excluding interest receivables, are due from the reporting date as follows (cont'd):

	2019 $'000	2018 $'000
Government of Jamaica Securities:		
From 3 months to 1 year	-	291,738
Over 5 years	30,000	30,000
	30,000	321,738
Government of Trinidad and Tobago Securities:		
From 3 months to 1 year	27,559	36,323
From 1 year to 5 years	120,554	170,875
	148,113	207,198
No specific maturity	323,170	140,271
	2,210,005	2,137,663

The fair value of the Government of Jamaica Securities classified under loans and receivables above amounts to $30,000,000 (2018: $321,738,000).

Government of Jamaica Securities include $Nil (2017: $45,000,000) held to the order of the Financial Services Commission as required by the Insurance Act 2001(see note 13). Government of Trinidad and Tobago Securities and certificates of deposits classified under loans and receivables above include amounts held in statutory fund or pledged funds as follows:

	2019 $'000	2018 $'000
Bahamas (BAH$)	2,639	1,000
Dominica (EC$)	1,000	-
Trinidad and Tobago (TT$)	13,564	16,020

The company has received the benefit of the renewal rights to an insurance portfolio in Trinidad and Tobago which was acquired by its immediate parent and the company has made deposits with an ultimate right of set off with a commercial bank not exceeding US$Nil and J$Nil (2018: US$504,000 and J$Nil) in relation to a loan facility to its immediate parent which relates primarily to the acquisition of the portfolio.

12. Investments (cont'd)

The following table presents the fair value and the amount of change in the fair value of the company's financial assets as at and for the year ended December 31, 2019 and 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

Financial assets	2019				
	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$'000	$'000	$'000	$'000	$'000
Securities purchased under resale agreement	946,507	946,507	-	-	-
Certificates of deposit	1,708,722	1,708,722	-	-	-
Bonds and debentures	378,113	378,113	-	-	-
Quoted investments	102,465	-	-	102,465	-
Unquoted and other investments	20,705	-	-	20,705	-
	3,156,512	3,033,342	-	123,170	-

Financial assets	2018				
	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$'000	$'000	$'000	$'000	$'000
Securities purchased under resale agreement	1,051,464	1,051,464	-	-	-
Certificates of deposit	1,468,456	1,468,456	-	-	-
Bonds and debentures	589,730	589,730	-	-	-
Quoted investments	63,880	-	-	63,880	-
Unquoted and other investments	15,597	-	-	15,597	-
	3,189,127	3,109,650	-	79,477	-

The following table presents the credit risk ratings of SPPI financial assets as at December 31, 2019 and 2018:

Credit rating	2019		
	Carrying value amount	Fair value	% of fair value
	$'000	$'000	
Bonds and debentures and certificates of deposits:			
Baa3	516,962	516,962	25%
Ba3	49,086	49,086	2%
Ba1	249,998	249,998	12%
B2	1,270,789	1,270,789	61%
	2,086,835	2,086,835	100%

12. Investments (cont'd)

The following table presents the credit risk ratings of SPPI financial assets as at December 31, 2019 and 2018 (cont'd):

Credit rating	2019 Carrying value amount $'000	2019 Fair value $'000	2019 % of fair value
Securities purchased under resale agreement:			
Ba1	72,651	72,651	8%
B2	873,856	873,856	92%
	946,507	946,507	100%

Credit rating	2018 Carrying value amount $'000	2018 Fair value $'000	2018 % of fair value
Bonds and debentures and certificates of deposits:			
Baa3	448,682	448,682	22%
Ba1	286,379	286,379	14%
B3	1,323,125	1,323,125	64%
	2,058,186	2,058,186	100%
Securities purchased under resale agreement:			
Ba1	61,481	61,481	6%
B3	989,983	989,983	94%
	1,051,464	1,051,464	100%

13. Resale agreements

	2019 $'000	2018 $'000
Denominated in Jamaica dollars	595,538	722,444
Denominated in United States dollars [US$2,100,000 (2018: US$2,100,000)]	278,318	267,539
Denominated in Trinidad and Tobago dollars [TT$3,514,798 (2018: TT$3,102,762)]	72,651	61,481
	946,507	1,051,464

Resale agreements denominated in Jamaica dollars includes $45,000,000 (2018: Nil) held to the order of the Financial Services Commission as required by the Insurance Act 2001 (see note 12) and $2,500,000 (2018: $5,000,000) that are pledged to a commercial bank in Jamaica.

13. Resale agreements (cont'd)

The company has received the benefit of the renewal rights to an insurance portfolio in Trinidad and Tobago which was acquired by its immediate parent and the company has made agreements with an ultimate right of set off with an investment company not exceeding US$2,000,000 and J$63,000,000 (2018: US$2,000,000 and J$63,000,000) in relation to two loan facilities to its immediate parent which relate primarily to the acquisition of the portfolio. The loan is secured by resale agreements denominated in Jamaica dollars of $63,320,000 and resale agreements denominated in United States dollars of $2,100,000, respectively.

14. Reinsurance assets and insurance contract provisions

(a) Analysis of movements in reinsurance assets and insurance contract provisions:

	2019			2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims outstanding	2,946,245	1,501,019	1,445,226	2,827,829	1,399,750	1,428,079
Unearned premiums	2,217,115	1,242,778	974,337	1,973,215	1,081,507	891,708
	5,163,360	2,743,797	2,419,563	4,801,044	2,481,257	2,319,787

(b) Claims outstanding:

	2019			2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims notified	1,925,661	968,770	956,891	1,768,871	874,002	894,869
Claims incurred but not yet reported	902,168	430,980	471,188	1,257,842	736,510	521,332
Balance at January 1	2,827,829	1,399,750	1,428,079	3,026,713	1,610,512	1,416,201
Claims expenses incurred	2,834,594	1,616,742	1,217,852	2,032,095	972,831	1,059,264
Claims paid in the year	(2,716,178)	(1,515,473)	(1,200,705)	(2,230,979)	(1,183,593)	(1,047,386)
Change in outstanding claims provision	118,416	101,269	17,147	(198,884)	(210,762)	11,878
Balance at December 31	2,946,245	1,501,019	1,445,226	2,827,829	1,399,750	1,428,079
Claims notified	2,083,809	1,122,409	961,400	1,925,661	968,770	956,891
Claims incurred but not reported	862,436	378,610	483,826	902,168	430,980	471,188
Balance at December 31	2,946,245	1,501,019	1,445,226	2,827,829	1,399,750	1,428,079

(c) Unearned premiums:

	2019			2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Balance at January 1	1,973,215	1,081,507	891,708	1,792,489	969,045	823,444
Premiums written during the year	5,565,991	3,262,280	2,303,711	4,967,785	2,842,249	2,125,536
Premiums earned during the year	(5,322,091)	(3,101,009)	(2,221,082)	(4,787,059)	(2,729,787)	(2,057,272)
Balance at December 31	2,217,115	1,242,778	974,337	1,973,215	1,081,507	891,708

14. Reinsurance assets and insurance contract provisions (cont'd)

(d) Gross unearned premiums are analysed as follows:

	2019 $'000	2018 $'000
Accident	10,611	1,306
Liability, engineering, bond and guarantee	27,214	15,099
Marine, aviation and transportation	2,704	500
Motor vehicle	1,898,359	1,762,984
Fire	278,227	193,326
	2,217,115	1,973,215

(e) Insurance contract provisions include an estimate of $113,197,000 (2018: $108,526,000) in respect of unallocated loss adjustment expense.

15. Insurance receivables

	2019 $'000	2018 $'000
Premiums receivable	343,083	302,884

Premiums receivable is stated net of commission and after allowance for impairment of $9,446,000 (2018: $11,217,000). See note 29(a)(iv).

16. Deferred commission expense

	2019 $'000	2018 $'000
Balance January 1	255,173	224,560
Commission paid during the year	663,739	591,362
Amounts recognised in profit or loss during the year	(635,635)	(560,749)
Balance December 31	283,277	255,173

17. Other accounts receivables

	2019 $'000	2018 $'000
Prepayments	30,750	41,089
Staff loans	28,000	29,206
Other	12,525	17,064
	71,275	87,359

No impairment losses have been recognised in the statement of profit or loss relating to other accounts receivables.

18. Cash and cash equivalents

Cash and cash equivalents include amounts denominated in foreign currencies as follows:

	2019 $'000	2018 $'000
United States dollars	853	541
Cayman Islands dollars	5	5
Bahamas dollars	584	986
Trinidad and Tobago dollars	2,686	1,243
Great Britain Pound sterling	10	12
Eastern Caribbean dollars	1,591	-

19. Other payables and accrued charges

	2019 $'000	2018 $'000
Accrued charges	92,868	120,909
Other payables	339,724	269,552
	432,592	390,461

20. Insurance payables

	2019 $'000	2018 $'000
Due to reinsurers	68,840	210,091
Deferred commission income	434,668	387,587
	503,509	597,678

The analysis of the movement in deferred commission income is as follows:

	2019 $'000	2018 $'000
Balance January 1	387,587	353,715
Commission received during the year	1,206,716	1,077,316
Amounts recognised in profit or loss during the year	(1,159,635)	(1,043,444)
Balance December 31	434,668	387,587

21. Deferred taxation

Deferred tax asset is attributable to the following:

	2017 $'000	Recognised in income $'000 [note 26(a)]	Recognised in other comprehensive income $'000	2018 $'000	Recognised in income $'000 [note 26(a)]	Recognised in other comprehensive income $'000	2019 $'000
Property, plant and equipment	19,646	3,597	-	23,243	(119)	-	23,124
Right-of-use assets	-	-	-	-	(75,578)	-	(75,578)
Investment properties	2,785	(114)	-	2,671	(111)	-	2,560
Other accounts receivables	(10,677)	2,063	-	(8,614)	3,820	-	(4,794)
Other payables and accruals	201	(201)	-	-	201	-	201
Lease liabilities	-	-	-	-	78,100	-	78,100
Employee benefit obligation	49,370	3,915	(2,372)	50,913	3,364	(2,363)	51,914
Unrealised gain on exchange	(564)	1,297	-	733	257	-	990
	60,761	10,557	(2,372)	68,946	9,934	(2,363)	76,517

22. Employee benefit obligation

The employee benefit obligation represents the present value of the company's constructive obligation to provide post-employment health and life insurance benefits for pensioners as follows:

(i) Employee benefit obligation recognised in the statement of financial position:

	2019 $'000	2018 $'000
Balance as at January 1	152,740	148,111
Included in profit or loss:		
Current service costs	4,700	4,850
Interest costs	10,831	12,031
	15,531	16,881
Included in other comprehensive income:		
Actuarial (gains)/losses:		
Experience (gains)/losses	(2,648)	912
Re-measurement gains	(4,441)	(8,030)
	(7,089)	(7,118)
Benefits paid	(5,440)	(5,134)
Balance at December 31	155,742	152,740

Notes to the Financial Statements (Continued)
December 31, 2019

22. Employee benefit obligation (cont'd)

(ii) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2019	2018
	%	%
Discount rate	7.5	7.0
Medical claims growth	5.0	4.5

Assumptions regarding future mortality are based on 1994 Group annuitants mortality table.

At December 31, 2019, the weighted average duration of defined benefit obligation was 17 years (2018: 19 years).

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarizes how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the health care and life insurance cost trend rates by one percentage point. In preparing the analyses for each assumption, all others were held constant.

	One percentage point increase		One percentage point decrease	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Effect on the employee benefit obligation	17,187	17,969	(14,023)	(14,142)

(iii) The company is expected to contribute $5,747,900 towards the health and life benefit plan in the subsequent reporting period (2018: $2,823,500).

23. Capital and reserves

	2019		2018	
	$'000	Number of shares	$'000	Number of shares
(a) Share capital				
Authorised ordinary shares of no par value*		260,237,000		213,237,000
Stated capital:				
In issue at January 1	213,237	213,237,000	213,237	213,237,000
Issue for cash*	47,000	47,000,000	-	-
In issue at December 31 – fully paid ordinary shares of no par value	260,237	260,237,000	213,237	213,237,000

* On September 25, 2019, the Board of Directors approved an increase in the company's authorised share capital from 213,237,443 to 260,237,334 of no par. On November 6, 2019, 47,000,000 ordinary shares were issued to the immediate parent company, ICWI Group Limited for a value of $47,000,000.

23. Capital and reserves (cont'd)

	2019 $'000	2018 $'000
(b) Share premium		
Share premium	66,763	66,763

(c) Capital reserve

The capital reserves comprises revaluation surplus on certain property, plant and equipment (see note 7).

(d) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments until the assets are derecognised or impaired.

(e) Distribution to shareholder

During the year, the Board of Directors declared and paid a distribution of $47,000,000 to the shareholder.

24. Disclosure of income and expenses

(a) Underwriting (loss)/profit before other income, expenses and taxation for the year is stated after charging:

	2019 $'000	2018 $'000
Depreciation	124,071	51,821
Directors' remuneration- fees	6,490	5,947
- management	123,321	97,742
Auditors' remuneration	14,959	13,864

(b) Transactions with key management personnel:

Compensation of key management personnel is as follows:

	2019 $'000	2018 $'000
Short term employment benefits:		
Salary	121,844	96,336
Pension contributions [see note 6(l)]	1,477	1,406
	123,321	97,742

24. Disclosure of income and expenses (cont'd)

(c) Operating expenses:

	2019 $'000	2018 $'000
Audit and accounting fees	25,097	24,096
Bad debt	2,782	11,514
Data maintenance	21,745	18,774
Insurance	9,272	4,417
Legal and professional fees	20,386	16,510
Salaries and wages	635,109	600,413
Other staff related costs	280,089	290,030
Post-employment health and life insurance benefits	15,531	16,881
Travelling and entertainment	21,468	16,132
Bank interest and other charges	38,384	35,169
Printing and stationary	13,001	11,856
Donations	9,687	12,706
Repairs and maintenance	74,722	70,824
Depreciation - Property, plant and equipment	57,864	51,821
- Right-of-use assets	66,207	-
Office rental	348	73,714
Company 50th anniversary expenses	18,830	-
Advertising and promotion	90,102	79,341
Property maintenance	72,969	69,946
Other administrative expenses	56,075	53,190
	1,529,668	1,457,334

25. Investment income

	2019 $'000	2018 $'000
Interest income:		
Loans and receivables	93,523	111,272
Cash and cash equivalents	1,088	1,015
	94,611	112,287
Rental income (see note 9)	7,871	7,699
Increase fair value of investment properties (note 9)	12,000	-
	114,482	119,986

26. Taxation

(a) Taxation is based on the profit for the year adjusted for tax purposes and is made up as follows:

	2019 $'000	2018 $'000
Current tax expense:		
Income tax – current year	84,631	62,915
– prior year	(3,645)	-
	80,986	62,915
Deferred tax expense:		
Origination and reversal of temporary differences (note 21)	(9,934)	(10,557)
Total taxation expense	71,052	52,358

(b) Reconciliation of expected tax expense and actual tax expense

The effective tax rate was 40.46% (2017: 24.5%) of pre-tax profits compared to a statutory tax rate of 33⅓% for Jamaica and 25% for Trinidad and Tobago and Dominica. The actual tax expense differed from the "expected" tax expense for the year as follows:

	2019 $'000	2018 $'000
Profit before taxation	175,569	213,030
Computed "expected" tax expense @ 33⅓%/25%	58,523	82,372
Difference between profit for financial statements and tax reporting purposes on		
Depreciation charge and capital allowances	22,930	(2,983)
Expense not allowed for tax purposes	(13,538)	(27,956)
Green/Business levy	6,782	925
Adjustments in respect of prior year	(3,645)	-
	71,052	52,358

(c) A deferred tax asset of $20 million (2018: $40 million) has not been recognised for the Trinidad and Tobago branch as management does not believe that the asset will be realised in the foreseeable future. At December 31, 2019, taxation losses amounting to $162.3 million (2018: $140.3 million) are available for set-off against future taxable profits for the Trinidad and Tobago branch, subject to agreement by Trinidad and Tobago tax authorities.

27. Reinsurance ceded

The company limits its exposure to a maximum amount on any one loss as detailed below:

	Jamaica	Bahamas	Trinidad	Dominica
Liability	J$ 1,000,000	US$100,000	US$ 31,250	US$125,000
Marine Hull	US$ 50,000	US$ 50,000	US$ 50,000	US$ 50,000
Marine Cargo	US$ 33,333	US$ 33,333	US$ 33,333	US$ 33,333
Engineering	US$ 30,000	US$ 30,000	US$ 30,000	US$ 30,000
Property	US$ 8,750	US$ 16,250	US$ 22,500	US$ 5,000
Motor	J$ 5,000,000	US$100,000	US$ 31,250	US$125,000
Bonds and Fidelity Guarantee	US$ 125,000	US$125,000	US$125,000	US$125,000
Cash	US$ 18,750	US$ 18,750	US$ 18,750	US$ 18,750
Burglary	US$ 25,000	US$ 25,000	US$ 25,000	US$ 25,000
All risk	US$ 50,000	US$ 50,000	US$ 50,000	US$ 50,000

In addition, the company has catastrophe reinsurance on which its liability on each event is limited to US$225,000.

28. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

The company’s management of insurance risk is a critical aspect of the business. The primary insurance activity carried out by the company is the transfer of risk from persons or entities that are directly subject to the risk, by means of the sale of insurance policies. As such, the company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these policies.

The principal types of policy written by the company are as follows:

Motor insurance
Property insurance
Liability insurance

The company manages its insurance risk through its underwriting policy that includes, *inter alia*, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance.

The company actively monitors insurance risk exposures both for individual and portfolio types of risks. These methods include internal risk measurement, portfolio modelling and scenario analyses.

28. Insurance risk management (cont'd)

Underwriting strategy:

The company seeks to underwrite a balanced portfolio of risks at rates and terms that will produce underwriting results consistent with its long term objectives.

The board of directors approves the underwriting strategy which is set out in an annual business plan and management is responsible for the attainment of the established objectives.

Reinsurance strategy:

The company reinsures a portion of the risks it underwrites in order to protect capital resources and to limit its exposure to variations in the projected frequency and severity of losses.

Ceded reinsurance includes credit risk, and the company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The board of directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is addressed in more detail in note 29.

Terms and conditions of general insurance contracts:

The table below provides an overview of the terms and conditions of general insurance contracts written by the company and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend.

Type contract	**Terms and conditions**	**Key factors affecting future cash flows**
Motor	Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the market value of the vehicle and policy limits in respect of third party damage and bodily injury.	In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by excessive speeding, the condition of the road network, failure by some motorists to obey traffic signals and an overall increase in the incidence of motor vehicle theft. The number of claims is also correlated with economic activity, which also affects the amount of traffic activity. Although majority of bodily injury claims have a relatively long tail, the majority of the claims incurred by the company are settled in the short term. In general, these claims involve higher estimation uncertainty.

28. Insurance risk management (cont'd)

Terms and conditions of general insurance contracts (cont'd):

Type contract	Terms and conditions	Key factors affecting future cash flows
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholders against the loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay (property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions). The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to bodily injury.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. Although majority of bodily injury claims have a relatively long tail, the majority of the claims incurred by the company are settled in the short term. In general, these claims involve higher estimation uncertainty.

Motor contracts:

The risks relating to motor contracts are managed primarily through the pricing process and reinsurance. The company monitors and reacts to changes in trends of injury awards, litigation and frequency of claims.

Property contracts:

The risks relating to property contracts are managed primarily through the pricing process and reinsurance. The company uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the company accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

28. Insurance risk management (cont'd)

Liability contracts:

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The company monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten. In pricing contracts, the company makes assumptions that costs will increase in line with the latest available financial and actuarial forecasts.

Risk exposure and concentrations of risk:

The following table shows the company's exposure to general insurance risk (based on the carrying value of claims outstanding at the reporting date) per major category of business.

	Motor $'000	Property $'000	Liability $'000	Other $'000	Total $'000
At 31 December 2019					
Gross	2,723,728	164,865	33,516	24,136	2,946,245
Net of reinsurance	1,410,598	10,458	16,620	7,550	1,445,226
At 31 December 2018					
Gross	2,726,565	33,689	46,002	21,573	2,827,829
Net of reinsurance	1,399,681	431	25,012	2,955	1,428,079

Claims development:

Claims development information is disclosed in order to illustrate the insurance risk inherent in the company. The top part of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

Analysis of net claims development

	Accident year						
	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of cumulative claims at end of accident year	1,488,984	1,091,522	1,034,137	1,015,046	953,404	1,083,056	6,666,149
-one year later	1,286,603	1,110,943	1,163,099	1,186,494	1,161,282		5,908,421
-two years later	1,223,507	1,070,540	1,119,500	1,190,570	-		4,604,117
-three years later	1,142,101	1,060,037	1,099,981	-	-		3,302,119
-four years later	1,130,615	1,043,662	-	-	-		2,174,277
-five years later	1,075,053	-	-	-	-		1,075,053
Estimate of cumulative claims	1,075,053	1,043,662	1,099,981	1,190,570	1,161,282	1,083,056	6,653,604
Cumulative payments to date	(952,741)	(966,800)	(936,392)	(986,505)	(832,774)	(533,166)	(5,208,378)
Net outstanding claims liabilities	122,312	76,862	163,589	204,065	328,508	549,890	1,445,226

29. Financial risk management

The company has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Market risk

Risk management framework

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the company's financial risk management framework. The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and investment contracts. The goal of the investment management process is to optimise the net of taxes, risk- adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The asset/liability matching process is largely influenced by estimates of the timing of payments required in terms of insurance. These estimates are re-evaluated on a regular basis. There are also criteria for ensuring the matching of assets and liabilities as investment markets change.

Firstly, the risk is managed through the establishment of an appropriate underwriting strategy and its implementation by means of the company's underwriting policy.

Secondly, the risk is managed through the use of reinsurance. The company arranges proportional reinsurance at the risk level and purchases excess of loss covers for motor, property and liability business. The company assesses the costs and benefits associated with the reinsurance programme on a regular basis.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a counterparty fails to meet its contractual obligations.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

The company's key areas of exposure to credit risk include:

- debt securities and cash and cash equivalents
- amounts due from policyholders
- amounts due from intermediaries
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of payments already made to policyholders

The nature of the company's exposure to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The company manages its credit risk in respect of debt securities by placing limits on its exposure to a single counterparty, by reference to information available in the market place relating to the financial standing of the counterparty. The company has a policy of investing only in high quality corporate bonds and government issued debts.

Its exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process. Financial analyses are conducted for significant exposures to individual policyholders or homogenous groups of policyholders.

All intermediaries must meet minimum requirements that are established and enforced by the company's management. The payment histories of intermediaries are monitored on a regular basis.

The company also operates a policy to manage its reinsurance counterparty exposures. The company assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations. The impact of reinsurer default is measured regularly and managed accordingly.

(i) Exposure to credit risk:

Credit ratings are publicly available for certain assets with credit risk. The following table analyses the credit rating by investment grade of assets bearing credit risk.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd):

Management of credit risk (cont'd):

(i) Exposure to credit risk (cont'd):

	2019							
	AA $'000	A $'000	Baa3 $'000	Ba1 $'000	Ba3 $'000	B2 $'000	Not rated $'000	Total $'000
Financial assets								
Carrying amount	-	-	516,962	322,649	49,086	2,144,645	-	3,033,342
Reinsurance assets (excluding unearned premium reserve)								
Carrying amount	1,218,077	282,942	-	-	-	-	-	1,501,019
Insurance and other receivables (excluding prepayments)								
Neither past due nor impaired	-	-	-	-	-	-	296,268	296,268
Past due but not impaired	-	-	-	-	-	-	87,340	87,340
Individually impaired	-	-	-	-	-	-	9,446	9,446
Gross amount	-	-	-	-	-	-	393,054	393,054
Allowance for impairment	-	-	-	-	-	-	(9,446)	(9,446)
Carrying amount	-	-	-	-	-	-	383,608	383,608
Cash and cash equivalents	-	-	-	-	-	-	442,180	442,180
	1,218,077	282,942	516,962	322,649	49,086	2,144,645	825,788	5,360,149

	2018						
	AA $'000	A $'000	Baa3 $'000	Ba1 $'000	B3 $'000	Not rated $'000	Total $'000
Financial assets							
Carrying amount	-	-	448,682	347,860	2,313,108	-	3,109,650
Reinsurance assets (excluding unearned premium reserve)							
Carrying amount	1,079,861	319,889	-	-	-	-	1,399,750
Insurance and other receivables (excluding prepayments)							
Neither past due nor impaired	-	-	-	-	-	300,230	300,230
Past due but not impaired	-	-	-	-	-	48,924	48,924
Individually impaired	-	-	-	-	-	11,217	11,217
Gross amount	-	-	-	-	-	360,371	360,371
Allowance for impairment	-	-	-	-	-	(11,217)	(11,217)
Carrying amount	-	-	-	-	-	349,154	349,154
Cash and cash equivalents	-	-	-	-	-	306,845	306,845
	1,079,861	319,889	448,682	347,860	2,313,108	655,999	5,165,399

The carrying amounts of financial assets and cash and cash equivalents do not include any assets that are either past due or impaired.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd):

Management of credit risk (cont'd):

(i) Exposure to credit risk (cont'd):

The company has no financial assets or reinsurance assets that would have been past due or impaired, whose terms have been renegotiated.

The company does not hold any collateral as security or any credit enhancements, credit derivatives and netting arrangements that do not qualify for offset.

(ii) Concentrations of credit risk

The specific concentration of risk from counterparties where receivables for any one counterparty is $10,000,000 or more at the year end is as follows:

	2019 $'000	2018 $'000
Billy Craig Insurance Brokers Limited	59,549	57,452
Allied Insurance Brokers Limited	29,035	18,222
ICWI Group Limited	361,312	343,003
Fraser Fontaine and Kong	40,581	64,576
JMMB Insurance Brokers Ltd	24,635	20,922
Spectrum Insurance Brokers Limited	7,766	11,672
REACT Limited	41,300	44,203

(iii) Assets that are past due

The company has insurance receivables that are past due but not impaired at the reporting date (as indicated by the overall credit risk exposure analysis). An aged analysis of the carrying amounts of these insurance receivables is presented below:

	Less than 46 days $'000	46 to 90 days $'000	More than 90 days $'000	Total $'000
December 31, 2019				
Receivables arising from insurance and reinsurance contracts agents, brokers and intermediates	175,107	80,636	87,340	343,083
December 31, 2018				
Receivables arising from insurance and reinsurance contracts agents, brokers and intermediates	140,292	113,668	48,924	302,884

29. Financial risk management (cont'd)

(a) Credit risk (cont'd):

Management of credit risk (cont'd):

(iv) Assets that are individually impaired

The analysis of overall credit risk exposure indicates that the company has insurance receivables that are impaired at the reporting date. The assets that are individually impaired are analysed below:

	2019		2018	
	Gross $'000	Net $'000	Gross $'000	Net $'000
Insurance receivables	9,446	-	11,217	-

The above assets have been individually impaired after considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

Movement on provision for impairment of insurance receivables are as follows:

	2019 $'000	2018 $'000
Balance at January 1	11,217	5,515
Additional provision, net of recoveries	(1,771)	5,702
Balance at December 31	9,446	11,217

(b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims. The nature of the company's exposure to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently, the company invests in marketable securities that can be readily realised as its obligations under insurance contracts fall due and in the event of reasonably foreseeable abnormal circumstances. The company also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The company is subject to a liquidity limit imposed by the regulator. The key measurement used for assessing liquidity risk is the ratio of liquid assets (as defined) to total liabilities.

Notes to the Financial Statements (Continued)
December 31, 2019

29. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

This ratio at the reporting date was 100% (2017: 102%). The level set by the regulator is 95%.

An analysis of the contractual maturities of the company's financial and insurance contract liabilities is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position.

	2019					
	Contractual undiscounted cash flows					
	Carrying Amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5-10 years $'000
Financial liabilities						
-Other payables and accrued charges	432,592	432,592	432,592	-	-	-
-Insurance payables	503,509	503,509	503,509	-	-	-
-Lease liabilities	255,839	255,839	80,870	75,409	99,560	-
-Due to fellow subsidiaries	222	222	222	-	-	-
Total financial liabilities	1,192,162	1,192,162	1,017,193	75,409	99,560	-
Insurance contract provisions						
-Claims outstanding	2,946,245	2,946,245	1,370,867	1,057,651	482,143	35,582
	4,138,407	4,138,407	2,388,060	1,133,060	581,703	35,582

	2018					
	Contractual undiscounted cash flows					
	Carrying Amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5-10 years $'000
Financial liabilities						
-Other payables and accrued charges	390,461	390,461	390,461	-	-	-
-Insurance payables	597,678	597,678	597,678	-	-	-
-Due to fellow subsidiaries	2,966	2,966	2,966	-	-	-
Total financial liabilities	991,105	991,105	991,105	-	-	-
Insurance contract provisions						
-Claims outstanding	2,827,829	2,827,829	1,347,845	1,015,680	436,359	27,945
	3,818,934	3,818,934	2,338,950	1,015,680	436,359	27,945

29. Financial risk management (cont'd)

(c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the company's assets, the amount of its liabilities and/or the company's income. Market risk arises in the company due to fluctuations in the value of liabilities and the value of investments held. The company is exposed to market risk on all of its financial assets.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the company's exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risk

The Investment Committee manages market risk in accordance with its asset/liability management framework. The Committee reports regularly to the Board of Directors on its activities. For each of the major components of market risk the company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the company at the reporting date to each major risk are addressed below.

The company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

Interest-bearing financial assets are primarily represented by relatively short term investments, which have been contracted at fixed and floating interest rates for the duration of the term.

The nature of the company's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior year.

(i) Interest rate risk:

At the reporting date the interest profile of the company's interest-bearing financial instruments was:

	Carrying amount	
	2019	2018
	$'000	$'000
Fixed rate instruments:		
Financial assets	3,013,342	3,002,515
Variable rate instruments:		
Financial assets	20,000	107,135

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd)

(i) Interest rate risk (cont'd):

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A change in interest rates would have increased or decreased equity by the amounts shown below:

	Increase/(decrease) in equity	
	2019	2018
	$'000	$'000
1% (2018: 1%) increase	-	(130)
1% (2018: 1%) decrease	-	130

Cash flow sensitivity analysis for variable rate instruments

A change in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Increase/(decrease) in profit before taxation	
	2019	2018
	$'000	$'000
1% (2018: 1%) increase	0.2	3
1% (2018: 1%) decrease	(0.2)	(3)

(ii) Foreign currency risk:

The company incurs foreign currency risk on transactions that are denominated in a currency other than the Jamaica dollar. The currency giving rise to this risk is primarily the United States dollar, however there are other transactions denominated in Netherlands Antilles guilder, Bahamas dollar, Great Britain pound sterling, Cayman Islands dollar, Trinidad and Tobago dollar and Eastern Caribbean dollar as follows:

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd)

(ii) Foreign currency risk (cont'd):

	2019 $'000	2018 $'000
United States dollars	3,128	3,325
Cayman Islands dollars	57	33
Bahamas dollars	4,737	4,802
Netherlands Antilles guilders	-	17
Great Britain Pound sterling	9	12
Trinidad and Tobago dollars	19,336	20,143
Eastern Caribbean dollars	3,205	-

Sensitivity analysis

Movement of J$ against other currencies	Increase/(decrease) in profit before taxation	
	2019 $'000	2018 $'000
6% (2018: 4%) weakening	86,513	56,545
4% (2018: 2%) strengthening	(57,676)	(28,330)

(iii) Equity price risk

Equity price risk arises from available-for-sale equity securities held by the company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the company's investment strategy is to maximise investment returns.

A 10% (2018: 10%) increase in the market price at the reporting date would cause an increase in other comprehensive income of $10,245,000 (2018: $6,388,000). A 10% (2018: 10%) decrease would have an equal but opposite effect on other comprehensive income.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

29. Financial risk management (cont'd)

(d) Operational risk (cont'd):

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the company's senior management team.

(e) Capital risk management

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its minimum asset ratios and the possible suspension or loss of its financial institution licence (see note 2). The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators
- To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for the shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

General insurance companies must maintain a minimum level of assets, capital and surplus to meet the liabilities of the company. The regulator requires that the total capital available to a general insurance company is at least 250% (2018: 250%) of the capital required as calculated under the minimum capital test (MCT). At December 31, 2019 the company's capital available was 279.26% (2018: 286.08%) of the capital required under the MCT.

30. Fair value of financial instruments

Fair value amounts represent estimates of the arm's-length consideration that would currently be agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of these instruments have been determined using a generally accepted alternative method.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Financial instrument	Method
Government of Jamaica Securities, Government of Trinidad and Tobago Securities and other corporate bonds.	Discounting future cash flows of these securities at the estimated reporting date using yields published by a broker. Where prices are not available fair value is assumed to approximate amortised cost.

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30. Fair value of financial instruments (cont'd)

Financial instrument	Method
Government of Jamaica US$ Global bonds and other corporate bonds.	Prices of bonds at reporting date as quoted by broker/dealer, where available.
Cash and cash equivalents, resale agreements, insurance and other receivables, insurance and other payables, reinsurance assets and insurance contract provisions.	Assumed to approximate their carrying values, due to their short-term nature.
Quoted equities	Bid prices published by the Jamaica Stock Exchange.
Mutual funds	Prices from fund managers

The Company considers relevant and observable market prices in its valuations where possible.

The following table sets out the fair value of the financial instruments using the valuation methods and assumption described below. The fair value disclosed does not reflect the value of assets and liabilities that are not considered financial instruments, such as property, plant and equipment.

	2019		2018	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Financial assets:				
Investments	2,210,005	2,210,005	2,137,663	2,137,663
Cash and cash equivalents	442,180	442,180	306,845	306,845
Due from related entities	413,236	413,236	411,977	411,977
Accrued investment income	14,381	14,381	25,841	25,841
Resale agreements	946,507	946,507	1,051,464	1,051,464
Reinsurance assets	1,501,019	1,501,019	1,399,750	1,399,750
Other accounts receivables	40,525	40,525	46,270	46,270
Insurance receivables	343,083	343,083	302,884	302,884
	5,910,936	5,910,936	5,682,694	5,682,694
Financial liabilities:				
Insurance contract provisions	2,946,245	2,946,245	2,827,829	2,827,829
Other payables and accrued charges	432,592	432,592	390,461	390,461
Due to fellow subsidiaries	222	222	2,966	2,966
Lease liabilities	255,839	255,839	-	-
Insurance payables	503,509	503,509	597,678	597,678
	4,138,407	4,138,407	3,818,934	3,818,934

30. Fair value of financial instruments (cont'd)

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The company considers relevant and observable market prices in its valuations where possible. The table below analyses available for sale financial instruments which are carried at fair value.

	2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investment securities – available for sale	102,465	200,000	20,705	323,170

	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investment securities – available for sale	63,880	60,794	15,597	140,271

31. Subsequent events

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices. This could have significant negative financial effects on the company, depending on factors such as (i) the duration and spread of the outbreak, (ii) the restrictions and advisories from Government, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be estimated reliably.

The company has performed various assessments and stress testing of its business plans under multiple scenarios, as part of its business continuity and contingency planning. However, at the date of authorisation of the financial statements, the company is unable to determine a reliable estimate of the financial impact of this matter on its profitability, capital adequacy and financial position.