

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2020



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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 66, which comprise the statement of financial position as at December 31, 2020, 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, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 International Code of Ethics for Professional Accountants, including International Independence Standards (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 (CONT'D)

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

Report on the Audit of the Financial Statements (cont'd)

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.



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INDEPENDENT AUDITORS' REPORT (CONT'D)

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

Report on the Audit of the Financial Statements (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- 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.

A handwritten signature of the KPMG firm, written in blue ink.

Chartered Accountants
Kingston, Jamaica

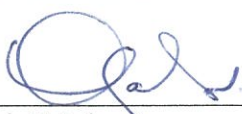
March 31, 2021

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED


Statement of Financial Position
December 31, 2020

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
ASSETS			
Property, plant and equipment	6	668,738	662,390
Right-of-use assets	7(i)(a)	231,635	248,141
Investment properties	8	62,952	57,200
Investment in subsidiary	9	4,013	4,013
Due from immediate parent company	10(a)(i)	341,044	361,312
Due from fellow subsidiaries	10(a)(ii)	3,862	10,623
Due from related company	10(a)(iii)	38,539	41,301
Deferred taxation	20	68,304	76,517
Investments	11	1,988,275	2,210,005
Securities purchased under resale agreements	12	1,378,064	946,507
Reinsurance assets	13	2,711,498	2,743,797
Taxation recoverable		60,416	31,136
Insurance receivables	14	413,790	343,083
Deferred commission expense	15	296,292	283,277
Other accounts receivables and prepayments	16	73,070	71,275
Accrued investment income		18,099	14,381
Cash and cash equivalents	17	<u>635,392</u>	<u>442,180</u>
Total assets		<u>8,993,983</u>	<u>8,547,138</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Other payables and accrued charges	18	425,502	432,592
Insurance payables	19	730,517	503,509
Insurance contract provisions	13	5,245,798	5,163,360
Lease liabilities	7(i)(b)	244,372	255,839
Due to fellow subsidiaries	10(iv)	42,427	222
Employee benefit obligation	21(i)	<u>138,263</u>	<u>155,742</u>
		<u>6,826,879</u>	<u>6,511,264</u>
Share capital	22(a)	260,237	260,237
Share premium	22(b)	66,763	66,763
Capital reserve	22(c)	2,662	2,662
Investment revaluation reserve	22(d)	4,732	38,188
Retained earnings		<u>1,832,710</u>	<u>1,668,024</u>
		<u>2,167,104</u>	<u>2,035,874</u>
Total liabilities and equity		<u>8,993,983</u>	<u>8,547,138</u>

The financial statements on pages 4 to 66 were approved by the Board of Directors on March 31, _____, 2021 and signed on its behalf by:



Hon. Dennis H. Lalor Director



Caryl A. Fenton Director

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, 2020

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
Gross premiums written	13	5,961,065	5,565,991
Change in gross provision for unearned premiums		(222,813)	(243,900)
Gross insurance premium revenue	13	5,738,252	5,322,091
Written premiums ceded to reinsurers	13	(3,418,712)	(3,262,280)
Reinsurers' share of change in provision for unearned premiums		<u>91,150</u>	<u>161,271</u>
Net insurance premium revenue	13	<u>2,410,690</u>	<u>2,221,082</u>
Claims expenses incurred	13	(2,594,953)	(2,834,594)
Reinsurers' share of claims	13	<u>1,338,081</u>	<u>1,616,742</u>
Net insurance claims	13	(1,256,872)	(1,217,852)
Commission income	19	1,226,072	1,159,635
Commission expenses	15	(673,511)	(635,636)
Net commission income		<u>552,561</u>	<u>523,999</u>
		1,706,379	1,527,229
Operating expenses	23(b)	(1,704,026)	(1,529,668)
Underwriting profit/(loss) before other income, expenses and taxation		2,353	(2,439)
Lease expense on lease liabilities	7(i)(c)	(22,687)	(20,093)
Investment income	24	108,922	108,693
Foreign exchange gain		82,119	51,400
Gain/(loss) on disposals of property, plant and equipment		69	(788)
Other income		<u>40,654</u>	<u>38,796</u>
Profit before taxation		211,430	175,569
Taxation	25	(65,083)	(71,052)
Profit for the year		<u>146,347</u>	<u>104,517</u>
Other comprehensive income			
Items that may be reclassified to profit			
Realised gains on available-for-sale investments	24	(9,890)	-
Net change in fair value of available-for-sale investments		(23,566)	<u>21,207</u>
		<u>(33,456)</u>	<u>21,207</u>
Items that will not be reclassified to profit or loss			
Remeasurement gain on employee benefit obligation	21(i)	27,509	7,089
Deferred tax	20	(9,170)	(2,363)
		<u>18,339</u>	<u>4,726</u>
Other comprehensive (loss)/income for the year, net of tax		(15,117)	<u>25,933</u>
Total comprehensive income for the year		<u>131,230</u>	<u>130,450</u>

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, 2020

	Share capital \$'000 [note 22(a)]	Share premium \$'000 [note 22(b)]	Capital reserve \$'000 [note 22(c)]	Investment revaluation reserve \$'000 [note 22(d)]	Retained earnings \$'000	Total \$'000
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:						
Net change in fair value of available-for-sale investments	-	-	-	21,207	-	21,207
Remeasurement loss on employee benefit obligation, net of taxes	-	-	-	-	4,726	4,726
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,207</u>	<u>109,243</u>	<u>130,450</u>
Transactions with owners of the company						
Distribution to shareholder [note 22(e)]	-	-	-	-	(47,000)	-
Issue of shares [note 22(a)]	<u>47,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances at December 31, 2019	260,237	66,763	2,662	38,188	1,668,024	2,035,874
Total comprehensive income:						
Profit for the year	-	-	-	-	146,347	146,347
Other comprehensive income:						
Realised gains on available-for-sale investments	-	-	-	(9,890)	-	(9,890)
Net change in fair value of available-for-sale investments	-	-	-	(23,566)	-	(23,566)
Remeasurement gain on employee benefit obligation, net of taxes	-	-	-	-	18,339	18,339
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,456)</u>	<u>164,686</u>	<u>131,230</u>
Balances at December 31, 2020	<u>260,237</u>	<u>66,763</u>	<u>2,662</u>	<u>4,732</u>	<u>1,832,710</u>	<u>2,167,104</u>

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, 2020

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		146,347	104,517
Adjustments for:			
Depreciation on property, plant and equipment	6	71,814	57,864
Depreciation on right-of-use assets	7(i)(a)	83,604	66,207
(Gain)/ loss on disposals of property, plant and equipment		(69)	788
Write-offs of property, plant and equipment	6	-	3,136
Increase in fair value of investment properties	8	-	(12,000)
Reinsurance assets		32,299	(262,540)
Insurance contract provisions		82,438	362,316
Employee benefit obligation	21(i)	15,911	15,531
Interest income	24	(96,954)	(94,611)
Realised gains on disposal of available-for-sale Investments	24	(9,890)	-
Interest expense on lease liabilities	7(i)(c)	22,687	20,093
Taxation	25	<u>65,083</u>	<u>71,052</u>
		413,270	332,353
Changes in:			
Insurance receivables		(70,707)	(40,199)
Deferred commission expenses		(13,015)	(28,104)
Other accounts receivables		(1,795)	16,084
Other payables and accrued charges		(7,090)	42,131
Insurance payables		<u>227,008</u>	<u>(94,169)</u>
		547,671	228,096
Interest received		103,126	106,071
Tax paid		(74,679)	(43,000)
Benefits paid	21(i)	(5,881)	(5,440)
Withholding tax		<u>(20,641)</u>	<u>(20,641)</u>
Net cash provided by operating activities		<u>549,596</u>	<u>265,086</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(83,113)	(102,280)
Additions to investment properties	8	(5,752)	-
Proceeds from sale of property, plant and equipment		5,020	1,312
Investments, net		<u>(243,283)</u>	<u>53,822</u>
Net cash used by investing activities		<u>(327,128)</u>	<u>(47,146)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution to shareholder	22(e)	-	(47,000)
Issuance of shares	22(a)	-	47,000
Payment of lease liabilities	7(i)(d)	(101,252)	(78,602)
Due from immediate parent company		20,268	(18,309)
Due to/from fellow subsidiaries, net		<u>51,728</u>	<u>14,306</u>
Net cash used by financing activities		<u>(29,256)</u>	<u>(82,605)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		193,212	135,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>442,180</u>	<u>306,845</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>\$635,392</u>	<u>\$442,180</u>

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

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements
December 31, 20201. 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 and Tobago
- Bahamas
- Dominica

2. Insurance licence

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

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

3. Roles of the actuary and auditors

The actuary has been appointed by the Board of Directors pursuant to the Insurance Act, 2001. 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's report outlines the scope of his work and opinion. An actuarial valuation is prepared annually.

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 insurance contract provision. 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 and interpretations came into effect during the current financial year, none of which had any significant impact on these financial statements.

New and amended standards and interpretations not yet effective:

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations which were in issue were not effective at the reporting date and have not been early-adopted by the company. Those which are considered relevant to the company are as follows:

- Amendments to IFRS 16 *Leases* is effective for annual periods beginning on or after June 1, 2020, with early application permitted. It provides guidance for COVID-19 related rent concessions.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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 16 Leases* (cont'd)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before 30 June 2021; and
- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

- Amendments to *IFRS 9 Financial Instruments*, *IAS 39 Financial Instruments: Recognition and Measurement*, *IFRS 7 Financial Instruments: Disclosures*, *IFRS 4 Insurance contracts* and *IFRS 16 Leases*, is effective for annual accounting periods beginning on or after January 1, 2021 and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform. The amendments principally address practical expedient for modifications.

A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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* (cont'd)

A similar practical expedient will apply under IFRS 16 *Leases* for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revised discount rate that reflects the change in interest rate will be used in remeasuring the lease liability.

The amendments also address specific relief from discontinuing hedging relationships as well as new disclosure requirements.

The company has exercised the option to defer the effective date of the adoption of IFRS 9 to January 1, 2023 and is assessing the impact that this amendment may have on its 2023 financial statements.

- IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023 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 contract 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 recognises the loss immediately.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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* (cont'd)

The key principles in IFRS 17 are that an entity (cont'd):

- 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.

- Amendments to IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023 provides for the following amendments to the standard:
 - Most companies that issue credit cards and similar products that provide insurance coverage will be able to continue with their existing accounting, unless the insurance coverage is a contractual feature, easing implementation for non-insurers.
 - For loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, companies that issue such loans have an option to apply IFRS 9 or IFRS 17, reducing the impact of IFRS 17 for non-insurers.
 - In measuring the contractual service margin; companies will choose to apply either a 'period-to-period' or 'year-to-date' approach, allowing greater opportunity for consistency with current practice and for subsidiaries to align reporting with their parent. Revenue and profit emergence will better reflect performance of the wide range of insurance products and the services they provide to customers. Allocating insurance acquisition cash flows to future renewal groups reduces the risk of groups becoming onerous solely from acquisition expenses paid relating to future renewals. The allocation is revised at each reporting period to reflect any changes in assumptions that determine the inputs to the method of allocation used, until all contracts have been added to the group and companies now need to assess for each period, the recoverability of insurance acquisition cash flow assets usually on a more granular level than applied today.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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 17 *Insurance Contracts* (cont'd)
 - Upon transition, companies may be able to account for acquired contracts before the transition date as liabilities for incurred claims. In many cases, companies will be required to identify and recognise an asset for insurance acquisition cash flows incurred prior to transition. Companies are not required to perform a recoverability assessment for periods prior to transition.
 - In accounting for direct participating contracts, the risk mitigation option has been expanded to non-derivative assets at FVTPL and reinsurance contracts held and extended to provide relief prospectively from the transition date. If a company meets the risk mitigation option criteria before transition, it can now apply the fair value approach to the related contracts at transition. Companies applying both OCI and risk mitigation options together will be able to achieve better matching in the income statement.
 - For reinsurance contracts, companies will be able to offset losses on initial recognition of direct insurance contracts based on a prescribed formula if they are covered by reinsurance contracts held, reducing accounting mismatches.
 - There is relief for companies to present (re)insurance contract assets and liabilities at a portfolio level, instead of group level in the statement of financial position and income taxes specifically charged to policyholders may now be included in fulfilment cash flows, better reflecting local practice in certain jurisdictions.
- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after 1 January 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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 IAS 1 *Presentation of Financial Statements (Cont'd)*

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

- 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, 2023, in line with IFRS 17 *Insurance Contracts* [See note 5(o)(iv)]. The standard includes requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting.

- 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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 IAS 37 Provisions, Contingent Liabilities and Contingent Assets is effective for annual periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling the contract. The amendments clarify that the 'costs of fulfilling a contract' comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.
- Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to certain standards and are effective for annual periods beginning on or after January 1, 2022. Those that affect the group's operation are IFRS 9 Financial Instruments and IFRS 16 Leases.
 - (i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
 - (ii) IFRS 16 *Leases* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

The company is assessing the impact that these amendments will have on its future 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 5(b)] and available-for-sale investments [see note 5(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 5(1).

(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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 20204. Statement of compliance and basis of preparation (cont'd)

(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.

(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.

Information about assumptions and estimation uncertainties at December 31, 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included 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. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

(ii) Outstanding claims [see note 5(o)(i)].

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

The amounts recognised in 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 medical obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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

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

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

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.

(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. Significant accounting policies

The company has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(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 5(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 estimated residual values at the end of their expected useful lives.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(a) Property, plant and equipment (cont'd):

(ii) Depreciation (cont'd):

The annual depreciation rates are as follows:

Buildings	2½%
Leasehold improvements	10%
Furniture, fixtures and equipment	10% & 20%
Motor vehicles	20%
Computers	20%
Computer equipment	33⅓%
Right-of-use assets	Over the lease term

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 initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Rental income from investment properties is recognised as a component of 'investment income' on a straight-line basis over the term of the lease.

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.

(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.

Change in fair value is recognised in other comprehensive income. Any gain or loss on disposal of available-for-sale investments is recognised in profit or loss.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(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.

Any gain or loss on disposal of securities purchased under resale agreement is recognised in profit or loss.

(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”).

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

- (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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(e) Related parties:

(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.
- (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 5(k)].

(g) Cash and cash equivalents:

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

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(h) Insurance and other payables:

Insurance and other payables are measured at amortised cost.

(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 INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(k) Impairment (cont'd):

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.

(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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(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.

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 recognised 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(l) Employee benefits (cont'd)

(i) Post retirement health and life insurance benefits (cont'd)

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.

(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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(m) Taxation (cont'd):

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.

(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 5(o)(i).

(ii) Reinsurance assumed:

The accounting policy for the recognition of reinsurance assumed is disclosed in note 5(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 5(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 irrevocable 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(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.

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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. 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 connected with issuing insurance contracts within the scope of IFRS 17 *Insurance contracts*.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. 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, 2020, there has been no change in the company's activities.

(p) Leases:

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

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.

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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(p) Leases (cont'd):

As a lessee (cont'd)

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.

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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

5. Significant accounting policies (cont'd)

(p) Leases (cont'd):

As a lessor

At inception 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 their relative stand-alone prices.

When the company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'investment income'.

Generally, the accounting policies applicable to the company as a lessor in the comparative period were not different from IFRS 16.

(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, securities purchased under 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 20205. Significant accounting policies (cont'd)

(s) 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.

(t) Dividends:

Dividends are recognised as a liability and a reduction of equity in the period in which they are declared.

(u) Expenses:

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

6. Property, plant and equipment

	<u>Land, buildings and leasehold improvement</u>	<u>Furniture, fixtures, equipment and computers</u>	<u>Motor vehicles</u>	<u>Work-in- progress</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000
At cost or deemed cost:					
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
Additions	3,192	3,728	6,432	69,761	83,113
Transfers	7,536	58,332	370	(66,238)	-
Disposals	(9,685)	(2,731)	(748)	-	(13,164)
December 31, 2020	<u>609,961</u>	<u>402,651</u>	<u>65,346</u>	<u>10,077</u>	<u>1,088,035</u>
Depreciation:					
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
Charge for the year	14,968	46,527	10,319	-	71,814
Eliminated on disposals	(5,214)	(2,251)	(748)	-	(8,213)
December 31, 2020	<u>144,404</u>	<u>242,011</u>	<u>32,882</u>	<u>-</u>	<u>419,297</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 20206. Property, plant and equipment (cont'd)

	<u>Land, buildings and leasehold improvement</u>	<u>Furniture, fixtures, equipment and computers</u>	<u>Motor vehicles</u>	<u>Work-in- progress</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000
Net book values:					
December 31, 2020	<u>465,557</u>	<u>160,640</u>	<u>32,464</u>	<u>10,077</u>	<u>668,738</u>
December 31, 2019	<u>474,268</u>	<u>145,587</u>	<u>35,981</u>	<u>6,554</u>	<u>662,390</u>

Freehold land and buildings were revalued on October 28, 1997, at an open market valuation of \$12,400,000 by Sagicor Property Management Limited, valuers and appraisers of Kingston. The revalued amounts have been deemed to be the assets' cost upon first-time adoption of IFRS in 2002. The previously reported surplus arising on revaluation is included in capital reserve [see note 22(c)].

Land, buildings and leasehold improvement include freehold land at a deemed cost/cost of \$178,500,000 (2019: \$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 in 2002. The previously reported surplus arising on revaluation is included in capital reserve [see note 22(c)].

7. Leases

The company leases properties for its branch operations. The term of the leases run for the period of one (1) to five (5) years, with an option to renew after that date. Lease payments are renegotiated to reflect market rates. The company elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and/or short-term leases.

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

i. Leases as lessee

(a) Right-of-use assets

	2020	2019
	\$'000	\$'000
Balance at January 1	314,348	291,257
Additions to right-of-use assets	<u>67,098</u>	<u>23,091</u>
Balance at December 31	<u>381,446</u>	<u>314,348</u>
Depreciation at January 1	66,207	-
Depreciation charge for the year	<u>83,604</u>	<u>66,207</u>
Balance at December 31	<u>149,811</u>	<u>66,207</u>
Carrying amount of right-of-use assets	<u>231,635</u>	<u>248,141</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 20207. Leases (cont'd)

i. Leases as lessee (cont'd)

(b) Lease liabilities

Maturity analysis – contractual undiscounted cash flows:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Less than one year	104,134	86,726
One to five years	<u>273,202</u>	<u>292,986</u>
Total undiscounted lease liabilities at December 31	377,336	379,712
Less: future interest expense	(132,964)	(123,873)
Carrying amount of lease liabilities	<u>244,372</u>	<u>255,839</u>
Current	91,526	80,870
Non-current	<u>152,846</u>	<u>174,969</u>
	<u>244,372</u>	<u>255,839</u>

Included in the above is a lease with a related party amounting to \$16,783,000 (2019: \$32,431,000).

(c) Amount recognised in profit or loss

	<u>2020</u> \$'000	<u>2019</u> \$'000
Interest on lease liabilities	22,687	20,093
Expenses relating to lease of low-value assets [note 23(b)]	<u>349</u>	<u>349</u>

(d) Amounts recognised in the statement of cash flows

	<u>2020</u> \$'000	<u>2019</u> \$'000
Total cash outflow for leases	<u>101,252</u>	<u>78,602</u>

(e) Extension options

The property leases includes extension options exercisable by the company up to one year before the end of the non-cancellable contract period. Where practicable, the company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the company and not by the lessors. The company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 20207. Leases (cont'd)

ii. Leases as lessor

The company leases out its investment properties consisting of its owned commercial properties. All leases are classified as operating leases from a lessor perspective, because they do not transfer substantially all of the risk and rewards incidental to the ownership of the assets. Note 8 sets out information about the operating leases of investment properties.

The following table sets out a maturity analysis of the lease payments, showing the undiscounted lease payments to be received after the reporting date.

	<u>2020</u> \$'000	<u>2019</u> \$'000
Less than one year	3,408	3,408
One to two years	3,408	3,408
Two to three years	3,408	3,408
Three to four years	3,408	3,408
Four to five years	<u>3,408</u>	<u>3,408</u>
Total	<u>17,040</u>	<u>17,040</u>

8. Investment properties

	<u>2020</u> \$'000	<u>2019</u> \$'000
Balance at January 1	57,200	45,200
Additions during the year	5,752	-
Change in fair value recognised in profit or loss	<u>-</u>	<u>12,000</u>
Balance at December 31	<u>62,952</u>	<u>57,200</u>

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.

Each of these leases contains an initial non-cancellable period of three years. Subsequent renewals are negotiated with the lessors and historically, the average renewal period is three years. Further information about these leases is included in note 7(ii).

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

8. Investment properties (cont'd)

Investment properties were valued in October 2019 by D.C. Tavares & Finson Realty Ltd. The significant underlying assumptions considered is the comparable prices for similar properties in the area, the level of current and future occupancy, the rate of annual rent changes, 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.

The rental income earned on the properties during the year amounted to \$2,078,000 (2019: \$2,082,000) (see note 24) and the related expenses totalled \$3,961,000 (2019: \$936,000).

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

The fair value measurement for investment properties of \$62,952,000 (2019: \$57,200,000) 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
<p><i>Market based approach:</i> 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.</p> <p>The approach requires comparison of the subject property with others of similar design and utility, inter alia, which were sold in the recent past.</p> <p>However as no two properties are exactly alike, adjustment is made for the difference between the property subject to valuation and comparable properties.</p>	<ul style="list-style-type: none"> • Details of the sales of comparable properties • Conditions influencing the sale of the comparable properties. • Comparability adjustment. 	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> • Sale value of comparable properties were higher/(lower). • Comparability adjustment were higher/(lower).

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

9. Investment in subsidiary

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Shares, at cost	<u>4,013</u>	<u>4,013</u>

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

	<u>% of equity capital held</u>	
	<u>2020</u>	<u>2019</u>
Insurance Company of Jamaica Limited	<u>100</u>	<u>100</u>

10. Related party balances/transactions

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

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
(i) Due from immediate parent company: ICWI Group Limited	<u>341,044</u>	<u>361,312</u>
(ii) Due from fellow subsidiaries:		
Turks & Caicos First Insurance Company Limited	1,021	423
The Great Northern Insurance Company Ltd.	362	1,451
The Insurance Company of the West Indies (Cayman) Limited	-	8,499
The Insurance Company of the West Indies (Bahamas) Limited	-	35
The Insurance Company of the West Indies (Sint Maarten) B.V.	853	-
GPI Limited	<u>1,626</u>	<u>215</u>
	<u>3,862</u>	<u>10,623</u>
(iii) Due from related company: REACT Limited – common director	<u>38,539</u>	<u>41,301</u>
(iv) Due to fellow subsidiaries:		
The Insurance Company of the West Indies (Sint Maarten) B.V.	-	222
The Insurance Company of the West Indies (Cayman) Limited	41,672	-
The Insurance Company of the West Indies (Bahamas) Limited	<u>755</u>	<u>-</u>
	<u>42,427</u>	<u>222</u>

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

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202010. 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.

	<u>2020</u> \$'000	<u>2019</u> \$'000
Corporate office expenses - immediate parent company	30,000	30,000
Other charges - related company (common director)	43,752	44,456
Lease expense - related company (common director)	7,814	4,265
Gross premiums written - immediate parent company	(13)	(13)
- related company (common director)	(5,601)	(15,313)
- related parties (directors and common director)	(11,626)	(10,628)
Claims expenses - related parties (directors and common director)	11,581	20,726
Commission expense - fellow subsidiary	<u>187,142</u>	<u>186,241</u>

- (c) Transactions with key management personnel:

Compensation of key management personnel is as follows:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Short term employment benefits (excluding directors' fees):		
Salary	116,002	121,844
Pension contributions [see note 5(1)]	<u>1,553</u>	<u>1,477</u>
	<u>117,555</u>	<u>123,321</u>

11. Investments

	<u>2020</u> \$'000	<u>2019</u> \$'000
Loans and receivables:		
Certificates of deposit	1,555,470	1,708,722
Government of Jamaica Securities:		
- Debentures	30,000	30,000
Government of Trinidad and Tobago Securities:		
- Debentures	<u>118,359</u>	<u>148,113</u>
	<u>1,703,829</u>	<u>1,886,835</u>
Available-for-sale investments:		
Corporate bond	200,000	200,000
Mutual fund	-	20,106
Unquoted investments	599	599
Quoted investments	<u>83,847</u>	<u>102,465</u>
	<u>284,446</u>	<u>323,170</u>
	<u>1,988,275</u>	<u>2,210,005</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202011. Investments (cont'd)

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

	<u>2020</u> \$'000	<u>2019</u> \$'000
Certificates of deposit:		
Within 3 months	948,810	1,178,393
From 3 months to 1 year	<u>606,660</u>	<u>530,329</u>
	<u>1,555,470</u>	<u>1,708,722</u>
	<u>2020</u> \$'000	<u>2019</u> \$'000
Government of Jamaica Securities:		
From 1 year to 5 years	20,000	-
Over 5 years	<u>10,000</u>	<u>30,000</u>
	<u>30,000</u>	<u>30,000</u>
Government of Trinidad and Tobago Securities:		
From 3 months to 1 year	28,127	27,559
From 1 year to 5 years	<u>290,232</u>	<u>320,554</u>
	<u>318,359</u>	<u>448,113</u>
No specific maturity	<u>84,446</u>	<u>123,170</u>
	<u>1,988,275</u>	<u>2,210,005</u>

The fair value of the Government of Jamaica Securities classified under loans and receivables above amounts to \$30,000,000 (2019: \$30,000,000).

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:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Bahamas (BAH\$)	2,639	2,639
Dominica (EC\$)	1,000	1,000
Trinidad and Tobago (TT\$)	<u>13,564</u>	<u>13,564</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202011. 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, 2020 and 2019, 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	2020				
	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 (note 12)	1,378,064	1,378,064	-	-	-
Certificates of deposit	1,555,470	1,555,470	-	-	-
Bonds and debentures	348,359	348,359	-	-	-
Quoted investments	83,847	-	-	83,847	-
Unquoted and other investments	599	-	-	599	-
	<u>3,366,339</u>	<u>3,281,893</u>	<u>-</u>	<u>84,446</u>	<u>-</u>
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 (note 12)	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	-
	<u>3,156,512</u>	<u>3,033,342</u>	<u>-</u>	<u>123,170</u>	<u>-</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

11. Investments (cont'd)

The following table presents the credit risk ratings of SPPI financial assets as at December 31, 2020 and 2019:

Credit rating	2020		
	Carrying value	Fair	% of
	<u>amount</u>	<u>value</u>	<u>fair value</u>
	\$'000	\$'000	
Bonds and debentures and certificates of deposits:			
Baa3	465,863	465,863	24%
Ba3	211,042	211,042	11%
Ba1	261,509	261,509	14%
B2	<u>965,415</u>	<u>965,415</u>	<u>51%</u>
	<u>1,903,829</u>	<u>1,903,829</u>	<u>100%</u>

Credit rating	2020		
	Carrying value	Fair	% of
	<u>amount</u>	<u>value</u>	<u>fair value</u>
	\$'000	\$'000	
Securities purchased under resale agreement:			
Ba1	122,404	122,404	9%
B2	<u>1,255,660</u>	<u>1,255,660</u>	<u>91%</u>
	<u>1,378,064</u>	<u>1,378,064</u>	<u>100%</u>

Credit rating	2019		
	Carrying value	Fair	% of
	<u>amount</u>	<u>value</u>	<u>fair value</u>
	\$'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	<u>1,270,789</u>	<u>1,270,789</u>	<u>61%</u>
	<u>2,086,835</u>	<u>2,086,835</u>	<u>100%</u>
Securities purchased under resale agreement:			
Ba1	72,651	72,651	8%
B2	<u>873,856</u>	<u>873,856</u>	<u>92%</u>
	<u>946,507</u>	<u>946,507</u>	<u>100%</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202012. Securities purchased under resale agreements

	<u>2020</u> \$'000	<u>2019</u> \$'000
Denominated in Jamaica dollars	920,654	595,538
Denominated in United States dollars [US\$2,351,688 (2019: US\$2,100,000)]	335,006	278,318
Denominated in Trinidad and Tobago dollars [TT\$5,792,476 (2019: TT\$3,514,798)]	<u>122,404</u>	<u>72,651</u>
	<u>1,378,064</u>	<u>946,507</u>

Securities purchased under resale agreements denominated in Jamaica dollars includes \$57,373,000 (2019:\$45,000,000) held to the order of the Financial Services Commission as required by the Insurance Act 2001 and \$2,500,000 (2019: \$2,500,000) that are pledged to a commercial bank in Jamaica.

The company 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 made agreements with an ultimate right of set off with an investment company not exceeding US\$2,000,000 and J\$63,000,000 (2019: 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 \$2,000,000, respectively.

The fair value of the underlying securities, in respect of securities purchased under resale agreements, amount to \$1,514,377,000 (2019: \$ 866,733,000).

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)

December 31, 2020

13. Reinsurance assets and insurance contract provisions

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

	<u>2020</u>			<u>2019</u>		
	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000
Claims outstanding	2,805,870	1,377,570	1,428,300	2,946,245	1,501,019	1,445,226
Unearned premiums	<u>2,439,928</u>	<u>1,333,928</u>	<u>1,106,000</u>	<u>2,217,115</u>	<u>1,242,778</u>	<u>974,337</u>
	<u>5,245,798</u>	<u>2,711,498</u>	<u>2,534,300</u>	<u>5,163,360</u>	<u>2,743,797</u>	<u>2,419,563</u>

(b) Claims outstanding:

	<u>2020</u>			<u>2019</u>		
	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000
Claims notified	2,083,809	1,122,409	961,400	1,925,661	968,770	956,891
Claims incurred but not yet reported	<u>862,436</u>	<u>378,610</u>	<u>483,826</u>	<u>902,168</u>	<u>430,980</u>	<u>471,188</u>
Balance at January 1	<u>2,946,245</u>	<u>1,501,019</u>	<u>1,445,226</u>	<u>2,827,829</u>	<u>1,399,750</u>	<u>1,428,079</u>
Claims expenses incurred	2,594,953	1,338,081	1,256,872	2,834,594	1,616,742	1,217,852
Claims paid in the year	<u>(2,735,328)</u>	<u>(1,461,530)</u>	<u>(1,273,798)</u>	<u>(2,716,178)</u>	<u>(1,515,473)</u>	<u>(1,200,705)</u>
Change in outstanding claims provision	<u>(140,375)</u>	<u>(123,449)</u>	<u>(16,926)</u>	<u>118,416</u>	<u>101,269</u>	<u>17,147</u>
Balance at December 31	<u>2,805,870</u>	<u>1,377,570</u>	<u>1,428,300</u>	<u>2,946,245</u>	<u>1,501,019</u>	<u>1,445,226</u>
Claims notified	1,780,346	888,743	891,603	2,083,809	1,122,409	961,400
Claims incurred but not reported	<u>1,025,524</u>	<u>488,827</u>	<u>536,697</u>	<u>862,436</u>	<u>378,610</u>	<u>483,826</u>
Balance at December 31	<u>2,805,870</u>	<u>1,377,570</u>	<u>1,428,300</u>	<u>2,946,245</u>	<u>1,501,019</u>	<u>1,445,226</u>

(c) Unearned premiums:

	<u>2020</u>			<u>2019</u>		
	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000
Balance at January 1	2,217,115	1,242,778	974,337	1,973,215	1,081,507	891,708
Premiums written during the year	5,961,065	3,418,712	2,542,353	5,565,991	3,262,280	2,303,711
Premiums earned during the year	<u>(5,738,252)</u>	<u>(3,327,562)</u>	<u>(2,410,690)</u>	<u>(5,322,091)</u>	<u>(3,101,009)</u>	<u>(2,221,082)</u>
Balance at December 31	<u>2,439,928</u>	<u>1,333,928</u>	<u>1,106,000</u>	<u>2,217,115</u>	<u>1,242,778</u>	<u>974,337</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202013. Reinsurance assets and insurance contract provisions (cont'd)

(d) Gross unearned premiums are analysed as follows:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Accident	9,723	10,611
Liability, engineering, bond and guarantee	41,479	27,214
Marine, aviation and transportation	2,215	2,704
Motor vehicle	2,048,399	1,898,359
Fire	<u>338,112</u>	<u>278,227</u>
	<u>2,439,928</u>	<u>2,217,115</u>

(e) Insurance contract provisions include an estimate of \$107,779,000 (2019: \$113,197,000) in respect of unallocated loss adjustment expense.

14. Insurance receivables

	<u>2020</u> \$'000	<u>2019</u> \$'000
Premiums receivable	<u>413,790</u>	<u>343,083</u>

Premiums receivable is stated net of commission and after allowance for impairment of \$16,754,000 (2019: \$9,446,000). See note 28(a)(iv).

15. Deferred commission expense

	<u>2020</u> \$'000	<u>2019</u> \$'000
Balance at January 1	283,277	255,173
Commission paid during the year	686,526	663,740
Amounts recognised in profit or loss during the year	<u>(673,511)</u>	<u>(635,636)</u>
Balance at December 31	<u>296,292</u>	<u>283,277</u>

16. Other accounts receivables and prepayments

	<u>2020</u> \$'000	<u>2019</u> \$'000
Prepayments	26,622	30,750
Staff loans	25,949	28,000
Other	<u>20,499</u>	<u>12,525</u>
	<u>73,070</u>	<u>71,275</u>

No impairment losses have been recognised in profit or loss relating to other accounts receivables and prepayments.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

17. Cash and cash equivalents

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

	<u>2020</u> \$'000	<u>2019</u> \$'000
United States dollars	585	853
Cayman Islands dollars	5	5
Bahamas dollars	1,198	584
Trinidad and Tobago dollars	8,656	2,686
Great Britain Pound sterling	12	10
Eastern Caribbean dollars	<u>1,463</u>	<u>1,591</u>

18. Other payables and accrued charges

	<u>2020</u> \$'000	<u>2019</u> \$'000
Accrued charges	111,176	92,868
Other payables	<u>314,326</u>	<u>339,724</u>
	<u>425,502</u>	<u>432,592</u>

19. Insurance payables

	<u>2020</u> \$'000	<u>2019</u> \$'000
Due to reinsurers	278,425	68,841
Deferred commission income	<u>452,092</u>	<u>434,668</u>
	<u>730,517</u>	<u>503,509</u>

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

	<u>2020</u> \$'000	<u>2019</u> \$'000
Balance January 1	434,668	387,587
Commission received during the year	1,243,496	1,206,716
Amounts recognised in profit or loss during the year	<u>(1,226,072)</u>	<u>(1,159,635)</u>
Balance December 31	<u>452,092</u>	<u>434,668</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

20. Deferred taxation

Deferred tax asset is attributable to the following:

	Recognised in income		Recognised in other comprehensive income		Recognised in income		Recognised in other comprehensive income	
	2018	2018	2019	2019	2020	2020	2020	2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		[note 25(a)]		[note 25(a)]		[note 25(a)]		
Property, plant and equipment	23,243	(119)	-	23,124	(894)	-	22,230	
Investment properties	2,671	(111)	-	2,560	(2,025)	-	535	
Other accounts receivables and prepayments	(8,614)	3,820	-	(4,794)	(638)	-	(5,432)	
Other payables and accruals	-	201	-	201	283	-	484	
Net lease liabilities	-	2,522	-	2,522	1,485	-	4,007	
Employee benefit obligation	50,913	3,364	(2,363)	51,914	3,344	(9,170)	46,088	
Unrealised gain on exchange	<u>733</u>	<u>257</u>	<u>-</u>	<u>990</u>	<u>(598)</u>	<u>-</u>	<u>392</u>	
	<u>68,946</u>	<u>9,934</u>	<u>(2,363)</u>	<u>76,517</u>	<u>957</u>	<u>(9,170)</u>	<u>68,304</u>	

21. 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:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Balance at January 1	<u>155,742</u>	<u>152,740</u>
Included in profit or loss:		
Current service costs	4,141	4,700
Interest costs	<u>11,770</u>	<u>10,831</u>
	<u>15,911</u>	<u>15,531</u>
Included in other comprehensive income:		
Actuarial gains:		
Experience losses/(gains)	309	(2,648)
Remeasurement gains	<u>(27,818)</u>	<u>(4,441)</u>
	<u>(27,509)</u>	<u>(7,089)</u>
Benefits paid	<u>(5,881)</u>	<u>(5,440)</u>
Balance at December 31	<u>138,263</u>	<u>155,742</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

21. Employee benefit obligation (cont'd)

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

	<u>2020</u>	<u>2019</u>
	%	%
Discount rate	9.0	7.5
Long term inflation rate	6.0	5.0
Health claims growth	<u>5.5</u>	<u>5.0</u>

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

At December 31, 2020, the weighted average duration of employee benefit obligation was 18 years (2019: 17 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.

	<u>One percentage point increase</u>		<u>One percentage point decrease</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	\$'000	\$'000	\$'000	\$'000
Effect On the employee benefit obligation	<u>17,405</u>	<u>17,187</u>	<u>(8,501)</u>	<u>(14,023)</u>

(iii) The company is expected to contribute \$5,996,700 towards the health and life benefit plan in the subsequent reporting period (2019: \$5,747,900).

22. Capital and reserves

	<u>2020</u>		<u>2019</u>	
	\$'000	Number of shares	\$'000	Number of shares
(a) Share capital				
There is no maximum limit to the authorised shares that the company can issue.				
Stated capital:				
In issue at January 1	260,237	260,237,000	213,237	213,237,000
Issue for cash*	<u>-</u>	<u>-</u>	<u>47,000</u>	<u>47,000,000</u>
In issue at December 31 – fully paid ordinary shares of no par value	<u>260,237</u>	<u>260,237,000</u>	<u>260,237</u>	<u>260,237,000</u>

* 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202022. Capital and reserves (cont'd)

	<u>2020</u> \$'000	<u>2019</u> \$'000
(b) Share premium		
Share premium	<u>66,763</u>	<u>66,763</u>

The issued shared capital does not include the above premium on shares, in accordance with section 39 (7) of the Companies Act of Jamaica. This has been retained in the share premium account.

(c) Capital reserve

The capital reserves comprise revaluation surplus on certain property, plant and equipment (see note 6).

(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

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

23. Disclosure of income and expenses

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

	<u>2020</u> \$'000	<u>2019</u> \$'000
Depreciation [note 23(b)]	155,418	124,071
Directors' remuneration- fees	6,835	6,490
- management	117,555	123,321
Auditors' remuneration	<u>15,518</u>	<u>14,959</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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

(b) Operating expenses:

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Audit and accounting fees	29,061	25,097
Bad debt	8,662	2,782
Data maintenance	29,602	21,745
Insurance	10,500	9,272
Legal and professional fees	16,117	20,386
Salaries and wages	686,992	635,109
Other staff related costs	330,669	280,089
Post-employment health and life insurance benefits [note 21(i)]	15,911	15,531
Travelling and entertainment	12,293	21,468
Bank interest and other charges	39,349	38,384
Printing and stationary	14,738	13,001
Donations	10,980	9,687
Repairs and maintenance	89,886	74,721
Depreciation - Property, plant and equipment (note 6) - Right-of-use assets (note 7)	71,814	57,864
	83,604	66,207
Office rental [note 7(c)]	349	349
Company 50 th anniversary expenses	-	18,830
Advertising and promotion	90,172	90,102
Property maintenance	67,578	72,969
Other administrative expenses	<u>95,749</u>	<u>56,075</u>
	<u>1,704,026</u>	<u>1,529,668</u>

24. Investment income

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Interest income:		
Loans and receivables	95,820	93,523
Cash and cash equivalents	<u>1,134</u>	<u>1,088</u>
	<u>96,954</u>	<u>94,611</u>
Realised gains on disposal of available-for-sale investments (note 29)	9,890	-
Rental income (see note 8)	2,078	2,082
Increase fair value of investment properties (note 8)	<u>-</u>	<u>12,000</u>
	<u>108,922</u>	<u>108,693</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

25. Taxation

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

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Current tax expense:		
Income tax – current year	66,040	84,631
– prior year	<u>-</u>	<u>(3,645)</u>
	66,040	80,986
Deferred tax expense:		
Origination and reversal of temporary differences (note 20)	<u>(957)</u>	<u>(9,934)</u>
Total taxation expense	<u>65,083</u>	<u>71,052</u>

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

The effective tax rate was 30.7% (2019: 40.46%) of pre-tax profits compared to a statutory tax rate of 33 $\frac{1}{3}$ % for Jamaica, 25% for Trinidad and Tobago and Dominica and nil for Bahamas. The actual tax expense differed from the “expected” tax expense for the year as follows:

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Profit before taxation	<u>211,430</u>	<u>175,569</u>
Computed "expected" tax expense @ 33 $\frac{1}{3}$ %/25%	70,584	58,523
Difference between profit for financial statements and tax reporting purposes on		
Depreciation charge and capital allowances	26,454	22,930
Income/ expense not allowed for tax purposes	(36,897)	(13,538)
Green/Business levy	4,942	6,782
Adjustments in respect of prior year	<u>-</u>	<u>(3,645)</u>
	<u>65,083</u>	<u>71,052</u>

- (d) A deferred tax asset of \$45 million (2019: \$20 million) has not been recognised for the Trinidad and Tobago branch and Dominica branch as management does not believe that the asset will be realised in the foreseeable future. At December 31, 2020, taxation losses amounting to \$205.1 million (2019: \$162.3 million) are available for set-off against future taxable profits for the Trinidad and Tobago branch, subject to agreement by Trinidad and Tobago and Dominica tax authorities.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202026. Reinsurance ceded

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

	<u>Jamaica</u>	<u>Bahamas</u>	<u>Trinidad</u>	<u>Dominica</u>
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.

27. 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

27. 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 28.

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.	<p>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.</p> <p>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.</p>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

27. 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.	<p>The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property.</p> <p>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).</p> <p>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.</p>
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.	<p>The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions.</p> <p>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.</p>

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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

27. 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.

	<u>Motor</u> \$'000	<u>Property</u> \$'000	<u>Liability</u> \$'000	<u>Other</u> \$'000	<u>Total</u> \$'000
At 31 December 2020					
Gross	2,718,992	20,742	50,054	16,082	2,805,870
Net of reinsurance	<u>1,396,440</u>	<u>898</u>	<u>28,027</u>	<u>2,935</u>	<u>1,428,300</u>
At 31 December 2019					
Gross	2,723,728	164,865	33,516	24,136	2,946,245
Net of reinsurance	<u>1,410,598</u>	<u>10,458</u>	<u>16,620</u>	<u>7,550</u>	<u>1,445,226</u>

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						Total \$'000
	<u>2015 and prior</u> \$'000	<u>2016</u> \$'000	<u>2017</u> \$'000	<u>2018</u> \$'000	<u>2019</u> \$'000	<u>2020</u> \$'000	
Estimate of cumulative claims							
at end of accident year	1,417,644	1,034,137	1,015,046	953,404	1,083,056	1,223,711	6,726,998
-one year later	1,373,969	1,163,099	1,186,494	1,161,282	1,276,262	-	6,161,107
-two years later	1,252,160	1,119,500	1,190,570	1,150,847	-	-	4,713,076
-three years later	1,230,171	1,099,981	1,143,062	-	-	-	3,473,214
-four years later	1,158,234	1,050,178	-	-	-	-	2,208,412
-five years later	1,105,942	-	-	-	-	-	1,105,941
Estimate of cumulative claims							
claims	1,105,942	1,050,178	1,143,062	1,150,847	1,276,262	1,223,711	6,950,002
Cumulative payments to date	<u>(1,002,555)</u>	<u>(966,653)</u>	<u>(1,035,120)</u>	<u>(963,509)</u>	<u>(1,009,424)</u>	<u>(544,441)</u>	<u>(5,521,702)</u>
Net outstanding claims liabilities	<u>103,387</u>	<u>83,525</u>	<u>107,943</u>	<u>187,338</u>	<u>266,837</u>	<u>679,270</u>	<u>1,428,300</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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 (components of insurance receivables)
- reinsurers' share of insurance liabilities (components of insurance receivables)
- amounts due from reinsurers in respect of payments already made to policyholders
- amounts due from related parties

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.

Cash and Cash equivalents is managed in line with the company's policy. Excess funds are invested for short periods of time, depending on the company's cash flow requirements. These surplus funds are placed with approved financial institutions with no concentration of funds being at any specific counterparty and thereby mitigating potential financial loss.

All related party transactions are pre-authorized and approved by management during the budgeting process and subsequently in the normal course of business.

(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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. Financial risk management (cont'd)

(a) Credit risk (cont'd):

Management of credit risk (cont'd):

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

	2020							
	<u>AA</u>	<u>A</u>	<u>Baa3</u>	<u>Ba1</u>	<u>Ba3</u>	<u>B2</u>	<u>Not rated</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Carrying amount	-	-	465,863	383,913	211,042	2,221,075	-	3,281,893
Reinsurance assets (excluding unearned premium reserve)								
Carrying amount	1,176,583	200,987	-	-	-	-	-	1,377,570
Insurance and other receivables (excluding prepayments)								
Neither past due nor impaired	-	-	-	-	-	-	281,414	281,414
Past due but not impaired	-	-	-	-	-	-	66,261	66,261
Individually impaired	-	-	-	-	-	-	129,317	129,317
Gross amount	-	-	-	-	-	-	476,992	476,992
Allowance for impairment	-	-	-	-	-	-	(16,754)	(16,754)
Carrying amount	-	-	-	-	-	-	460,238	460,238
Cash and cash equivalents	-	-	-	-	-	-	635,392	635,392
	<u>1,176,583</u>	<u>200,987</u>	<u>465,863</u>	<u>383,913</u>	<u>211,042</u>	<u>2,221,075</u>	<u>1,095,630</u>	<u>5,755,093</u>
	2019							
	<u>AA</u>	<u>A</u>	<u>Baa3</u>	<u>Ba1</u>	<u>Ba3</u>	<u>B2</u>	<u>Not rated</u>	<u>Total</u>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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
	<u>1,218,077</u>	<u>282,942</u>	<u>516,962</u>	<u>322,649</u>	<u>49,086</u>	<u>2,144,645</u>	<u>825,788</u>	<u>5,360,149</u>

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

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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:

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Billy Craig Insurance Brokers Limited	55,195	59,549
Allied Insurance Brokers Limited	32,650	29,035
Covenant Insurance Brokers Limited	11,047	7,053
CGM Gallagher Insurance Brokers Limited	14,631	8,033
ICWI Group Limited	341,044	361,312
Fraser Fontaine and Kong	39,317	40,581
JMMB Insurance Brokers Ltd	9,216	24,635
REACT Limited	<u>38,538</u>	<u>41,300</u>

(iii) Assets that are past due

The company has insurance receivables (see note 14) 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, 2020				
Receivables arising from insurance and reinsurance contracts agents, brokers and intermediates	<u>234,966</u>	<u>66,261</u>	<u>112,563</u>	<u>413,790</u>
December 31, 2019				
Receivables arising from insurance and reinsurance contracts agents, brokers and intermediates	<u>175,107</u>	<u>80,636</u>	<u>87,340</u>	<u>343,083</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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:

	<u>2020</u>		<u>2019</u>	
	<u>Gross</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Net</u> \$'000
Insurance receivables	<u>16,754</u>	<u>-</u>	<u>9,446</u>	<u>-</u>

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:

	<u>2020</u> \$'000	<u>2019</u> \$'000
Balance at January 1	9,446	11,217
Additional provision, net of recoveries	<u>7,308</u>	<u>(1,771)</u>
Balance at December 31	<u>16,754</u>	<u>9,446</u>

(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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

This ratio at the reporting date was 100% (2019: 100%). 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.

	2020					
	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	425,502	425,502	425,502	-	-	-
-Insurance payables	730,517	730,517	730,517	-	-	-
-Lease liabilities	244,372	377,336	104,134	104,134	169,068	-
-Due to fellow subsidiaries	<u>42,427</u>	<u>42,427</u>	<u>42,427</u>	-	-	-
Total financial liabilities	<u>1,442,818</u>	<u>1,575,782</u>	<u>1,302,580</u>	<u>104,134</u>	<u>169,068</u>	-
Insurance contract provisions						
-Claims outstanding	<u>2,805,870</u>	<u>2,805,870</u>	<u>1,285,368</u>	<u>1,016,128</u>	<u>482,274</u>	<u>22,100</u>
	<u>4,248,688</u>	<u>4,381,652</u>	<u>2,587,948</u>	<u>1,120,262</u>	<u>651,342</u>	<u>22,100</u>
	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	379,712	86,726	86,726	206,260	-
-Due to fellow subsidiaries	<u>222</u>	<u>222</u>	<u>222</u>	-	-	-
Total financial liabilities	<u>1,192,162</u>	<u>1,316,035</u>	<u>1,023,049</u>	<u>86,726</u>	<u>206,260</u>	-
Insurance contract provisions						
-Claims outstanding	<u>2,946,245</u>	<u>2,946,245</u>	<u>1,370,867</u>	<u>1,057,651</u>	<u>482,143</u>	<u>35,584</u>
	<u>4,138,407</u>	<u>4,262,280</u>	<u>2,393,916</u>	<u>1,144,377</u>	<u>688,403</u>	<u>35,584</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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:

	<u>Carrying amount</u>	
	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Fixed rate instruments:		
Financial assets	<u>3,261,893</u>	<u>3,013,342</u>
Variable rate instruments:		
Financial assets	<u>20,000</u>	<u>20,000</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. 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:

	<u>Increase/(decrease) in equity</u>	
	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
1% (2019: 1%) increase	<u>-</u>	<u>-</u>
1% (2019: 1%) decrease	<u>-</u>	<u>-</u>

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.

	<u>Increase/(decrease) in profit before taxation</u>	
	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
1% (2019: 1%) increase	0.2	0.2
1% (2019: 1%) decrease	<u>(0.2)</u>	<u>(0.2)</u>

(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:

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd)

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

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
United States dollars	2,545	2,344
Cayman Islands dollars	5	5
Bahamas dollars	2,863	2,809
Great Britain Pound sterling	55	57
Trinidad and Tobago dollars	9,149	6,292
Eastern Caribbean dollars	<u>2,062</u>	<u>2,241</u>

Sensitivity analysis

<u>Movement of J\$ against other currencies</u>	<u>Increase/(decrease) in profit before taxation</u>	
	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
6% (2019: 6%) weakening	107,785	86,513
2% (2019: 4%) strengthening	<u>(35,928)</u>	<u>(57,676)</u>

Exchange rates at December 31:

	<u>2020</u>	<u>2019</u>
USD1 to JMD	142.45	132.53
BSD1 to JMD	142.45	132.53
XCD1 to JMD	52.76	49.09
KYD1 to JMD	173.72	161.63
TTD1 to JMD	21.13	20.67

(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 7% (2019: 10%) increase in the market price at the reporting date would cause an increase in other comprehensive income of \$5,869,000 (2019: \$10,245,000). A 12.5% (2019: 10%) decrease would cause a decrease in other comprehensive income of \$10,481,000 (2019 \$10,245,000).

THE INSURANCE COMPANY OF THE WEST INDIES LIMITEDNotes to the Financial Statements (Continued)
December 31, 202028. Financial risk management (cont'd)

(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.

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% (2019: 250%) of the capital required as calculated under the minimum capital test (MCT). At December 31, 2020 the company's capital available was 288% (2019: 279.26%) of the capital required under the MCT.

29. 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 instrumentMethod

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.

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

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

<u>Financial instrument</u>	<u>Method</u>
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, securities purchased under 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 relative short-term nature (in some instance due on demand), or bears market rates of interest applicable to similar investments.
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.

	<u>2020</u>		<u>2019</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Financial assets:				
Investments	1,988,275	1,988,275	2,210,005	2,210,005
Cash and cash equivalents	635,392	635,392	442,180	442,180
Due from related entities	383,445	383,445	413,236	413,236
Accrued investment income	18,099	18,099	14,381	14,381
Securities purchased				
under resale agreements	1,378,064	1,378,064	946,507	946,507
Reinsurance assets	1,377,570	1,377,570	1,501,019	1,501,019
Other accounts receivables	46,448	46,448	40,525	40,525
Insurance receivables	<u>413,790</u>	<u>413,790</u>	<u>343,083</u>	<u>343,083</u>
	<u>6,241,083</u>	<u>6,241,083</u>	<u>5,910,936</u>	<u>5,910,936</u>
Financial liabilities:				
Insurance contract provisions	2,805,870	2,805,870	2,946,245	2,946,245
Other payables and accrued charges	425,502	425,502	432,592	432,592
Due to fellow subsidiaries	42,427	42,427	222	222
Lease liabilities	244,372	244,372	255,839	255,839
Insurance payables	<u>730,517</u>	<u>730,517</u>	<u>503,509</u>	<u>503,509</u>
	<u>4,248,688</u>	<u>4,248,688</u>	<u>4,138,407</u>	<u>4,138,407</u>

THE INSURANCE COMPANY OF THE WEST INDIES LIMITED

Notes to the Financial Statements (Continued)
December 31, 2020

29. 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.

	<u>2020</u>			
	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Total</u> \$'000
Investment securities – available-for-sale	<u>83,847</u>	<u>200,000</u>	<u>599</u>	<u>284,446</u>
	<u>2019</u>			
	<u>Level 1</u> \$'000	<u>Level 2</u> \$'000	<u>Level 3</u> \$'000	<u>Total</u> \$'000
Investment securities – available-for-sale	<u>102,465</u>	<u>200,000</u>	<u>20,705</u>	<u>323,170</u>

Reconciliation of Level 3 fair values

The following table shows a reconciliation for the opening balances and the closing balances for Level 3 fair values.

	<u>Mutual</u> <u>Funds</u> \$'000	<u>Unquoted</u> <u>Investments</u> \$'000	<u>Total</u> \$'000
Balance at January 1, 2019	14,988	599	15,587
Net change in fair value recognised in OCI (unrealised)	<u>5,108</u>	<u>-</u>	<u>5,108</u>
Balance at December 31, 2019	20,096	599	20,695
Disposal	(10,206)	-	(10,206)
Realised gains on disposal recognised in profit or loss (note 24)	<u>(9,890)</u>	<u>-</u>	<u>(9,890)</u>
Balance at December 31, 2020	<u>-</u>	<u>599</u>	<u>599</u>

Notes to the Financial Statements (Continued)

December 31, 202030. Impact of the COVID-19

The World Health Organization (WHO) 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 significant disruptions to economic activities, business operations and asset prices. The adverse impacts of the pandemic have also been considered in the company's estimates of impairment of insurance receivable and other assets.

At the date of approving the financial statements, the full impact of the pandemic on the company's markets and businesses remains highly uncertain. However, management continues to monitor and respond to the business impact of the pandemic and does not anticipate that it will adversely affect the company's ability to continue as a going concern in the foreseeable future, having regard to the company's capital adequacy, profitability and liquidity.