Guardian General Insurance Jamaica Limited

Financial Statements

For the Year Ended 31 December 2017

(Expressed in Jamaican dollars unless otherwise indicated)

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Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Guardian General Insurance Jamaica Limited

Report on the Financial Statements

Opinion

We have audited the financial statements of Guardian General Insurance Jamaica Limited (the Company), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation 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.

The Board of Directors is responsible for overseeing the financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholder of Guardian General Insurance Jamaica Limited (Continued)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 presents a true and fair view.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Shareholder of Guardian General Insurance Jamaica Limited (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with the Board of Directors 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 requirements of 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.

Ernst & Young

Ernst & Young
Kingston, Jamaica

23 February 2018

Guardian General Insurance Jamaica Limited

Statement of Comprehensive Income

Year ended 31 December 2017

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Gross premiums written		7,471,035	6,747,435
Outward reinsurance premiums		(5,538,432)	(5,075,976)
Premiums written, net of reinsurance		1,932,603	1,671,459
Change in provision for unearned premiums		(143,877)	6,591
Premiums earned, net of reinsurance		1,788,726	1,678,050
Claims incurred, net of reinsurance		(1,210,758)	(1,109,088)
Commissions earned		563,658	630,182
Commissions paid		(535,155)	(483,650)
Change in net deferred policy acquisition costs		26,551	(5,958)
Administrative expenses	8	(615,817)	(575,728)
Underwriting profit		17,205	133,808
Investment income	10	698,347	399,144
Other income		5,733	2,177
Foreign exchange (losses) gains		(25,616)	120,934
Profit before taxation		695,669	656,063
Taxation	11	(214,187)	(177,109)
Net profit attributable to owners of the parent		481,482	478,954
Other comprehensive income:			
Amount not to be reclassified to profit or loss in future periods:			
Re-measurement of employee benefit obligation, net of taxes	26	(533)	(200)
Amount to be reclassified to profit or loss in future periods:			
Investment fair value gain, net of taxes	27	104,515	91,869
Total other comprehensive income		103,982	91,669
Total comprehensive income attributable to owners of the parent		585,464	570,623

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

Guardian General Insurance Jamaica Limited
Statement of Financial Position
As at 31 December 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
ASSETS			
Property and equipment	12	78,487	88,364
Investments	13	6,522,280	5,956,353
Due from policyholders, brokers and agents		1,221,160	913,792
Deferred policy acquisition costs	14	230,016	208,796
Recoverable from reinsurers	15	3,781,339	3,026,806
Other receivables	16	16,075	23,269
Cash and bank	17	722,668	653,101
Total assets		12,572,025	10,870,481
EQUITY			
Share capital	18(a)	1,138,500	1,138,500
Share options	19	-	2,289
Other capital reserves	18(b)	213,167	213,167
Revaluation reserves	27	396,675	292,160
Retained earnings		1,876,665	1,808,427
Total equity		3,625,007	3,454,543
LIABILITIES			
Insurance reserves	15	7,589,696	6,667,586
Deferred tax liabilities, net	20	304,558	161,155
Due to reinsurers and co-insurers		723,899	341,073
Other creditors	21	275,171	142,426
Employee benefit obligation	26	12,200	11,100
Taxation payable		41,494	92,598
Total liabilities		8,947,018	7,415,938
Total equity and liabilities		12,572,025	10,870,481

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

On 23 February 2018, the Board of Directors authorised these financial statements for issue.

David Henriques Director

Karen Bhoorasingh Director

Guardian General Insurance Jamaica Limited
Statement of Changes in Equity
Year ended 31 December 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	Share Capital $'000	Share Option $'000	Other Capital Reserves $'000	Revaluation Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2016		1,138,500	2,289	213,167	200,291	1,779,673	3,333,920
Net profit		-	-	-	-	478,954	478,954
Dividends paid	25	-	-	-	-	(450,000)	(450,000)
Other comprehensive income		-	-	-	91,869	(200)	91,669
Balance at 31 December 2016		1,138,500	2,289	213,167	292,160	1,808,427	3,454,543
Net profit		-	-	-	-	481,482	481,482
Repurchase – Vested Options		-	(2,289)	-	-	2,289	-
Dividends paid	25	-	-	-	-	(415,000)	(415,000)
Other comprehensive income		-	-	-	104,515	(533)	103,982
Balance at 31 December 2017		1,138,500	-	213,167	396,675	1,876,665	3,625,007

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

Guardian General Insurance Jamaica Limited
Statement of Cash Flows
Year ended 31 December 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Net cash provided by operating activities (page 8)		550,464	243,368
Cash flows from investing activities			
Purchase of property and equipment	12	(18,663)	(7,409)
Proceeds from disposal of property and equipment		4,688	-
Proceeds from disposal of non-current assets held for sale		-	-
Investments, net		(343,528)	(550,497)
Net cash used in investing activities		(357,503)	(557,906)
Cash flows from financing activities			
Dividends paid	25	(415,000)	(450,000)
Net cash used in financing activities		(415,000)	(450,000)
Net decrease in cash and cash equivalents		(222,039)	(764,538)
Effect of exchange rate on cash and cash equivalents		(11,340)	45,573
Cash and cash equivalents at beginning of year		2,141,302	2,860,267
Cash and cash equivalents at end of year		1,907,923	2,141,302
Cash and cash equivalents comprise:			
Short-term investments	13	1,185,255	1,488,201
Cash and bank	17	722,668	653,101
		1,907,923	2,141,302

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

Guardian General Insurance Jamaica Limited
Statement of Cash Flows (Continued)
Year ended 31 December 2017
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Net profit		481,482	478,954
Adjustments for:			
Depreciation of property and equipment	12	27,226	32,897
Amortisation of intangible assets		-	4,348
(Gain) Loss on disposal of property and equipment		(3,374)	96
Gain on disposal of investments	10	(58,301)	-
Net interest and dividend income	10	(328,341)	(329,185)
Tax expense	11	214,187	177,109
Employee benefit obligations	26	1,000	900
Unrealised exchange gains on foreign currency		11,340	(102,889)
Unrealised fair value gain on investments	10	(311,705)	(69,959)
Increase in insurance reserves		922,110	1,117,279
Changes in operating assets and liabilities:			
Due from policyholders, brokers and agents		(307,368)	(51,166)
Deferred policy acquisition costs		(21,220)	18,132
Recoverable from reinsurers		(754,533)	(1,092,019)
Taxation paid		(173,878)	(133,611)
Other receivables		7,194	(5,612)
Due to related parties		46,397	3,612
Due to reinsurers and co-insurers		382,826	(97,933)
Other creditors		86,348	(39,254)
Employee benefit obligations paid	26	(700)	(600)
Net cash provided by/(used in) operating activities		220,690	(88,901)
Interest and dividend received		329,774	332,269
Net cash provided by operating activities (page 7)		550,464	243,368

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

1. Identification and activity

Guardian General Insurance Jamaica Limited (the "Company") is a limited liability company, incorporated and domiciled in Jamaica, with registered office at 19 Dominica Drive, Kingston 5, Jamaica. The Company is a wholly-owned subsidiary of Globe Holdings Limited which is incorporated in St. Lucia. Globe Holdings Limited is a wholly-owned subsidiary of Guardian Holdings Limited, the ultimate parent company which is incorporated in the Republic of Trinidad and Tobago.

The Company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal activity is the underwriting of property and casualty risks.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and the requirements of the Jamaican Companies Act.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the notes. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Basis of measurement
The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities classified as fair value through profit or loss and available for sale.

Judgements
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

(b) Adoption of new and revised International Financial Reporting Standards

(i) New standards and amendments/revisions to published standards and interpretations effective in 2017

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. Significant accounting policies (continued)

(b) Adoption of new and revised International Financial Reporting Standards (continued)

(i) New standards and amendments/revisions to published standards and interpretations effective in 2017 (continued)

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments do not have any impact on the Company's financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Asset for Unrealized Losses
The amendments to IAS 12 clarify the following:

- Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
- An entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses.

Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

These amendments have no impact on the Company's financial position or performance.

Annual Improvements to IFRSs 2014 - 2016 Cycle: Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of the disclosure requirements in IFRS 12
The amendments clarify the scope of IFRS 12 by specifying that its disclosure requirements, except for those in paragraphs B10-B16 (summarized financial information for subsidiaries, joint ventures and associates), apply to an entity's interests irrespective of whether they are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

These amendments do not have any impact on the Company's financial statements.

2. Significant accounting policies (continued)

(b) Adoption of new and revised International Financial Reporting Standards (continued)

(ii) New standards, interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Company

The following is a list of new IFRS standards, interpretations and amendments issued that are not yet effective as at 31 December 2017 and have not been early adopted by the Company. For all standards, interpretations and amendments effective 1 January 2018, except for IFRS 9 Financial Instruments, the company is currently evaluating the impact of adoption but does not anticipate they would have a material impact on its financial statements.

Effective 1 January 2018:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Amendments to IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transaction
- Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Financial Instruments
- IFRS 10 and IAS 28 - Amendments - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - In December 2015, the IASB deferred the effective date of the amendments until such time it has finalized any amendments that results from its research project on the equity method of accounting.
- FRS 15 Revenue from Contracts with Customers
- Annual Improvements to IFRSs 2014 – 2016 Cycle:
- IAS 28 Investment in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first time adopters
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective 1 January 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over income tax treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 28: Long-term associates and joint ventures
- Annual Improvements to IFRSs 2015-2017 Cycle:
  - IFRS 3 Business Combinations: Previously held Interests in a joint operation
  - IFRS 11 Joint Arrangements: Previously held Interests in a joint operation
  - IAS 12 Income Taxes: Income tax consequences of payments on financial instruments classified as equity
  - IAS 23 Borrowing Costs: Borrowings costs eligible for capitalisation

Effective 1 January 2021:

- IFRS 17 Insurance Contracts

2. Significant accounting policies (continued)

(b) Adoption of new and revised International Financial Reporting Standards (continued)

(ii) New standards, interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Company (continued)

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, with an effective date of 1 January 2018. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

Financial assets classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. In addition, a new model for hedge accounting was introduced to achieve better alignment with risk management activities.

In September 2016, the IASB issued amendments to IFRS 4, to allow insurance entities whose predominant activities are to issue contracts within the scope of IFRS 4, an optional temporary exemption from applying IFRS 9 until 2021 (the “deferral approach”). The Company qualifies and has elected the deferral approach permitted under the amendments. Consequently, the Company will continue to apply IAS 39, the existing financial instrument standard, in its financial statements until 2021 or earlier.

(c) Revenue recognition

Underwriting income
Premiums are recognised over the life of the policies written. The portion of premiums written in the current year which relates to coverage in subsequent years is deferred as unearned premiums (Note 2(f)). Commissions earned on the reinsurance of risks are credited to revenue over the life of the policies.

Interest income
Interest income for all interest bearing financial instruments is recognised within investment income in the statement of comprehensive income using the effective interest method.

Dividend
Dividend income for equities is recognised when the right to receive payment is established.

2. Significant accounting policies (continued)

(d) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The Company's insurance contracts are classified as short-term insurance contracts which include casualty, marine, motor insurance and property insurance contracts.

- Property insurance contracts mainly compensate the Company's customers in the event of loss from a specified insured peril up to the insured amount and within the terms of the policy conditions. These contracts are issued for both private and commercial risks. Customers who undertake commercial activities on their premises could also receive compensation for consequential loss/business interruption caused by insured perils.

- Motor insurance contracts indemnify the Company's customers for their legal requirement under the road traffic legislation. These contracts may be extended for additional coverage such as physical damage, theft and personal accident.

- Casualty insurance contracts provide coverage for liability exposures that indemnify the Company's customers against actions from third parties, which are subject to the policy limits and conditions. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and employers who become liable to pay compensation to third parties for bodily harm or property damage (public liability).

- Marine insurance contracts indemnify the Company's customers for loss or damage to their insured cargo, commercial hull and pleasure craft vessels. Third party coverage is also provided.

For these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risk at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before deductible commissions payable agents and brokers and exclude any taxes or duties levied on such premiums. Premium income includes premiums collected by agents and brokers not yet received by the Company.

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (salvage). The Company may also have the right to pursue third parties for payment of some of all costs (subrogation). The estimated cost of claims includes a deduction for the expected value of salvage and other recoveries.

Claims and loss adjustments expenses are charged to the statement of comprehensive income as incurred based on estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using techniques such as the input of assessments for individual cases reported to the Company and statistical analyses for claims incurred but not reported (IBNR), and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising on these revisions are recognized within claims expense in the current year.

2. Significant accounting policies (continued)

(e) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the statement of comprehensive income.

(f) Provision for unearned premiums

Unearned premiums represent the portion of premiums written in the current year that relate to periods of insurance subsequent to the statement of financial position, date calculated using the three hundred and sixty-fifths method. Unearned premiums relating to marine cargo are calculated using the shorter of the three hundred and sixty-fifths method and the term of the contract effective after the first date of sailing.

(g) Provision for unexpired risks

The provision for unexpired risks is determined by the appointed actuary and represents the expected future costs associated with the unexpired portion of policies in force as of the statement of financial position date, in excess of the net unearned premium minus net deferred policy acquisition costs.

(h) Provision for claims outstanding

The provision for claims outstanding represents estimates of the cost of settling claims made, but not paid as of the statement of financial position date, less expected reinsurance recoveries. The provision for claims incurred but not reported (“IBNR”) is actuarially determined by the appointed actuary in accordance with the actuarial regulations of the Insurance Act, 2001.

(i) Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company are classified as reinsurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short–term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

2. Significant accounting policies (continued)

(i) Reinsurance (continued)

Estimated amounts of reinsurance recoverable, which represent the unearned portion of premiums ceded to the reinsurers are included in recoverable from reinsurers on the statement of financial position.

The Company assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income.

(j) Unearned commission

The unearned commission represents the actual commission income on premium ceded on proportional reinsurance contracts relating to the unexpired period of risk carried. The income is deferred as unearned commission reserves, and amortised over the period in which the commissions are expected to be earned. These reserves are calculated on the 365th method.

(k) Deferred policy acquisition costs ("DAC")

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred and recognised as an asset. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as premium is earned over the life of the contracts.

(l) Property and equipment and intangible assets

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment, if any. Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment, if any. Historical cost includes expenditure directly attributable to the acquisition of the items.

Acquired computer software licences and website development costs are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are also recognised as intangible assets.

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

2. Significant accounting policies (continued)

(l) Property and equipment and intangible assets

Property and equipment and intangible assets with the exception of freehold land, on which no depreciation is provided, are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	33 1/3%
Furniture and fixtures	10% - 20%
Motor vehicles	20%
Leasehold improvements	Shorter of period of lease or useful life of asset
Intangible assets	33 1/3%

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

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

Gains and losses on disposals are determined by comparing the proceeds with their carrying amount. These are included in the statement of comprehensive income.

(m) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in thousands of Jamaican dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(n) Investments

Investment securities are classified as financial assets at fair value through profit or loss and available-for-sale. Management determines the appropriate classification of investments at the time of purchase which classification depends on the purpose for which the investments were acquired or originated.

Financial assets classified as fair value through profit or loss have two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking.

Financial assets designated as fair value through profit or loss at inception by the Company, are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel.

2. Significant accounting policies (continued)

(n) Investments (continued)

Investments classified as fair value through profit or loss are initially recognized and subsequently measured at fair value. All related transaction costs for these investments are expensed.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the statement of comprehensive income within investment and finance income in the period in which they arise.

Available-for-sale (AFS) financial assets re recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset. AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value, except where fair value cannot be reliably determined in which case they are stated at cost. Unrealised gains or losses are recognised in other comprehensive income and credited to investment revaluation reserve until the investment is recognised, at which time, the cumulative gain or loss is recognised in the income statement, or the investment is determined to be impaired, when the cumulative loss is reclassified from the Investment revaluation reserve to the income statement. Interest earned whilst holding AFS financial assets is reported as interest income using the effective interest rate method.

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.

All purchases and sales of investment securities are recognised at settlement date.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company transfers all risks and rewards of ownership.

(o) Income taxes

Taxation expense in the statement of comprehensive income comprises current and deferred income tax charges.

Current income tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Company's liability for current income tax is calculated at tax rates that have been enacted at statement of financial position date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

2. Significant accounting policies (continued)

(o) Income taxes (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited in the statement of comprehensive income, except in instances where deferred tax relates to items recognised directly in other comprehensive income, in which case, deferred tax is charged or credited to other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current income tax liabilities and when the deferred taxes relate to the same fiscal liability.

(p) Employee benefits

(i) Pension scheme
The Company operates a defined contribution scheme. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employees' benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

(ii) Leave accrual
Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

(iii) Termination benefits
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the statement of financial position date are discounted to present value.

(iv) Employee benefit obligations
Post retirement medical benefits are provided for the pensioners of the Company. Post retirement obligation included in the financial statements has been actuarially determined by an independent qualified actuary that was appointed by management. The actuarial valuation was conducted in accordance with the requirements of IAS 19, using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through the statement of comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2. Significant accounting policies (continued)

(p) Employee benefits (continued)

(iv) Employee benefit obligations (continued)
Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under expenses in statement of comprehensive income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

(v) Share-based compensation
Guardian Holdings Limited and its subsidiaries (The Group) operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the statement of income, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share option reserve when the options are exercised.

(vi) Bonus plan
The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

(q) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(r) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(s) Share capital

Shares are classified as equity when there is no obligation to transfer cash and other assets. Incremental cost directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

2. Significant accounting policies (continued)

(t) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, deposits held at call with banks, and other short-term highly liquid investments with maturities of 90 days or less, net of bank overdrafts.

(u) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined on an individual asset basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and written down to its recoverable amount.

(v) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortised cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each statement of financial position date.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recognised in the statement of profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2. Significant accounting policies (continued)

(v) Impairment of financial assets (continued)

AFS financial assets

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised.

(w) Fair value measurement

The Company measures financial instruments at fair value at each statement of financial position date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2. Significant accounting policies (continued)

(w) Fair value measurement (continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities. Financial assets in this category are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Financial assets are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in mutual funds with published net asset values and evidence of trades and assets that are valued using the Company's own models whereby the majority of assumptions are market observable.

(iii) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Assets and liabilities included in level 3 are held at cost, being the fair value of the consideration paid on acquisition and are regularly assessed for impairment. These financial assets are not quoted as there are no active markets to determine a price. The main asset class in this category is unlisted equity instruments.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(x) Financial instruments

Financial instruments carried on the statement of financial position include cash, investments, other receivables, and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The determination of the fair values of the Company’s financial instruments is discussed in Note 5.

(y) Dividend distribution

Dividends are recorded as a deduction from shareholders’ equity in the period in which they are approved.

3. Insurance and financial risk management

The Company's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework. The Board has established committees/departments for managing and monitoring risks, as follows:

(i) Finance Department
The Finance Department is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Company.

(ii) Investment Committee
The Investment Committee is responsible for monitoring the investment portfolio, and the development of investment strategies for the Company. The Investment Committee is also responsible for the establishment of appropriate trading limits, reports and compliance controls to ensure that its mandate is properly followed.

(iii) Audit Committee
The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The most important types of risk faced by the Company are insurance risk, credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and equity price risk.

(a) Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

3. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the Company's insurance contracts is, however, concentrated within Jamaica.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Where applicable, contracts are underwritten by reference to the commercial replacement value of the properties or other assets and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event. The cost of rebuilding properties, of replacement or indemnity for other assets and contents and the time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

The frequency or severity of claims and benefits can be affected by the increasing number of cases that are going to court for settlement and the level of awards. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a portion of the claims provision relates to IBNR claims.

There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the statement of financial position date. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the statement of financial position date.

In calculating the estimated cost of unpaid claims (both reported and not), the Company uses estimation techniques that are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) is analysed by type of risk and industry where the insured operates for current and prior year premiums earned.

3. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Sensitivity analysis of actuarial liabilities
Actuarial liabilities comprise 100% of total insurance liabilities. The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

Actuarial assumptions

(i) In applying the noted methodologies, the following assumptions were made:

- With respect to the analysis of the incurred claims development history, the level of outstanding claims reserve adequacy is relatively consistent (in inflation adjusted terms) over the experience period.
- With respect to the analysis of the paid claims development history, the rate of payment of ultimate incurred losses for the recent history is indicative of future settlement patterns. The pattern of net development factors is very stable and there is no evident trend in the factors.
- The claims inflation rate implicit in the valuation is equivalent to the rate which is part of the historical data.
- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the Insurance Act, 2001.

Provision for adverse deviation assumptions
The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin for adverse deviation in each assumption.

Development of claim liabilities
In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the Company’s ability to estimate the ultimate value of claims. The table below illustrates how the Company’s estimate of the ultimate claims liability for accident years 2012 - 2017 has changed at successive year-ends, up to 2017. Updated unpaid claims and adjustment expenses (“UCAE”) and IBNR estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

3. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

		2012 and prior	2013	2013 and prior	2014	2014 and prior	2015	2015 And prior	2016	2016 And prior	2017	2017 And prior
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2013	Paid during year	385,691	357,307	742,998	-	-	-	-				
	UCAE, end of year	1,367,095	392,324	1,759,419	-	-	-	-				
	IBNR, end of year	217,217	342,663	559,880	-	-	-	-				
	Ratio: excess (deficiency)	-39.88%										
2014	Paid during year	397,408	289,561	686,969	442,994	1,129,963	-	-				
	UCAE, end of year	926,363	440,278	1,366,641	594,180	1,960,821	-	-				
	IBNR, end of year	64,913	103,692	168,605	420,675	589,280	-	-				
	Ratio: excess (deficiency)	-25.98%		4.19%								
2015	Paid during year	248,150	118,511	366,661	271,092	637,753	493,853	1,131,606				
	UCAE, end of year	640,502	371,473	1,011,975	485,658	1,497,633	489,657	1,987,290				
	IBNR, end of year	56,070	23,789	79,859	143,308	223,167	361,207	584,374				
	Ratio: excess (deficiency)	9.55%		12.11%		7.66%						
2016	Paid during year	157,516	75,319	232,835	122,301	355,136	216,715	571,851	490,686	1,062,537		
	UCAE, end of year	477,801	273,798	751,599	404,080	1,155,679	429,545	1,585,224	467,738	2,052,962		
	IBNR, end of year	42,759	17,008	59,767	32,847	92,614	125,057	217,671	345,056	562,727		
	Ratio: excess (deficiency)	-21.37%	-5.33%	9.55%	18.18%	12.11%	9.35%	7.66%				
2017	Paid during year	122,888	41,314	164,202	67,839	232,041	99,656	331,697	283,081	614,778	569,644	1,184,422
	UCAE, end of year	403,955	184,253	588,208	226,718	814,926	356,227	1,171,153	342,217	1,513,370	563,325	2,076,695
	IBNR, end of year	53,427	20,632	74,059	14,775	88,834	41,680	130,514	85,085	215,599	352,424	568,023
	Ratio: excess (deficiency)	25.61%	0.73%	8.90%	30.76%	16.53%	16.05%	14.25%	12.60%	10.40%		

3. Insurance and financial risk management (continued)

(b) Reinsurance risk

The Company relies upon reinsurance agreements to limit the potential for losses and to increase its capacity to write insurance. Reinsurance arrangements are effected under reinsurance treaties and by negotiation on individual risks. Reinsurance does not relieve the Company from liability to its policyholders. To the extent that a reinsurer may be unable to pay losses for which it is liable under the terms of the reinsurance agreement, the Company is exposed to the risk of continued liability for such losses. However, in an effort to reduce the risk of non-payment, the Company requires all of its reinsurers to have a Standard & Poor or equivalent rating of A- or better.

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Company selects reinsurers who have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit.

Facultative reinsurance placements are independent of the Company reinsurance treaties and all facultative placements are individually rated.

The amount of reinsurance recoveries recognised during the year is as follows:

	2017 $'000	2016 $'000
Property	74,581	901,563
Motor	11,325	5,526
Marine	1,806	17,513
Accident	64,039	53,552
Engineering	8,242	29,050
	159,993	1,007,204

(c) Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk include market risk (currency risk, interest rate risk and other price risk), liquidity risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk, credit risk and market risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the Company's financial performance.

(i) Credit risk

The Company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Company by failing to discharge their contractual obligations. Credit exposures arise principally from the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, and investment activities. The Company manages its credit risk, using the credit review process as outlined below.

2. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Credit review process
The Company has established a credit control team which analyses and assesses the ability of customers and other counterparties to meet repayment obligations.

(i) Reinsurance
The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The team assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(ii) Premium and other receivables
The credit control team examines the payment history for significant contract holders with whom they conduct regular business. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit performs regular reviews to assess the degree of compliance with the Company’s credit policies. Exposures to individual policyholders and groups of policyholders are managed within the ongoing monitoring of the controls associated with regulatory solvency.

(iii) Investments
The Company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Maximum exposure to credit risk

	Maximum Exposure	
	2017 $’000	**2016 $’000**
Credit risk exposures are as follows:		
Reinsurance recoverable	1,500,720	1,057,439
Investments	5,353,214	5,125,267
Due from policyholders, brokers and agents	1,221,160	913,792
Other receivables	8,246	13,660
Cash and bank	722,668	653,101
	8,806,008	7,763,259

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2017 and 2016.

2. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Ageing analysis of due from policyholders, brokers and agents:

Balances from policyholders, brokers and agents that are less than three months past due are not considered impaired. The ageing analysis of receivables is as follows:

	2017 $'000	2016 $'000
0 to 45 days	947,506	684,778
46 to 92 days	132,680	165,179
93 to 182 days	122,847	63,835
More than 182 days	18,127	-
	1,221,160	913,792

Due from policyholders, brokers and agents

The following table summarises Company's credit exposure for due from policyholders, brokers and agents at their carrying amounts, as categorised by the brokers and direct business:

	2017 $'000	2016 $'000
Brokers	1,157,476	861,946
Direct	63,684	51,846
	1,221,160	913,792

All premium receivables are receivable from customers and brokers in Jamaica.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

Liquidity risk management process

The Company's liquidity management process includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.

(ii) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.

(iii) Optimising cash returns on investment.

(iv) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to claims liabilities.

Monitoring of cash flows is done on a daily basis to ensure that the Company maintains sufficient liquid assets to honour its short-term obligations as they fall due.

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable with respect to the Company's financial liabilities, based on contractual repayment obligations as at 31 December.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2017:						
Claims outstanding	110,812	184,768	748,695	2,635,892	465,271	4,145,438
Due to reinsurers and coinsurers	-	723,899	-	-	-	723,899
Other creditors	-	-	156,228	-	-	156,228
Total financial liabilities (contractual maturity dates)	110,812	908,667	904,923	2,635,892	465,271	5,025,565

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2016:						
Claims outstanding	52,801	115,421	450,437	2,708,814	345,655	3,673,128
Due to reinsurers and coinsurers	-	341,073	-	-	-	341,073
Other creditors	-	-	126,679	-	-	126,679
Total financial liabilities (contractual maturity dates)	52,801	456,494	577,116	2,708,814	345,655	4,140,880

Assets available to meet all of the liabilities and to cover financial liabilities include cash and bank balances and investment securities.

(iii) Market risk

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk – currency risk, interest rate risk and other price risk, each of which are considered below.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

(iv) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company manages its foreign exchange net exposure by ensuring that it continuously monitors its foreign currency position to ensure that there are adequate foreign assets available to meet its foreign liabilities.

The Company also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(iv) Currency risk (continued)

Concentrations of currency risk

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December.

	Jamaican $ J$'000	US$ J$'000	Total J$'000
At 31 December 2017:			
Financial Assets			
Investments	5,071,469	1,450,811	6,522,280
Due from policyholders, brokers and agents	527,832	693,328	1,221,160
Recoverable from reinsurers	994,569	2,786,770	3,781,339
Other receivables	8,246	-	8,246
Cash and bank	573,660	149,008	722,668
Total financial assets	7,175,776	5,079,917	12,255,693
Financial Liabilities			
Insurance reserves	4,640,804	2,948,892	7,589,696
Due to reinsurers and co-insurers	110,195	613,704	723,899
Other creditors	146,512	9,716	156,228
Total financial liabilities	4,897,511	3,572,312	8,469,823
Net financial position	2,278,265	1,507,605	3,785,870

	Jamaican $ J$'000	US$ J$'000	Total J$'000
At 31 December 2016:			
Financial Assets			
Investments	4,638,913	1,317,440	5,956,353
Due from policyholders, brokers and agents	434,495	479,297	913,792
Recoverable from reinsurers	705,954	2,320,852	3,026,806
Other receivables	13,660	-	13,660
Cash and bank	512,102	140,999	653,101
Total financial assets	6,305,124	4,258,588	10,563,712
Financial Liabilities			
Insurance reserves	4,175,317	2,492,269	6,667,586
Due to reinsurers and co-insurers	127,046	214,027	341,073
Other creditors	126,679	-	126,679
Total financial liabilities	4,429,042	2,706,296	7,135,338
Net financial position	1,876,082	1,552,292	3,428,374

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(iv) Currency risk (continued)

Foreign currency sensitivity

The following tables show the sensitivity of the Company's net profit and equity to changes in the rate of exchange for the currency to which the Company had significant exposure, the US dollar. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis is done for outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 4% (2016: 5.0%) change in foreign currency rates. The percentage change in the currency rate will impact each financial asset/liability included in the sensitivity analysis differently. Consequently, individual sensitivity analyses were performed. The effect on net profit and equity shown below is the total of the individual sensitivities done for each of the assets/liabilities.

	% Change in Currency Rate 2017	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000	% Change in Currency Rate 2016	Effect on Net Profit 2016 $'000	Effect on Equity 2016 $'000
Currency:						
USD – Positive	4%	60,304	-	5.0%	77,615	-
USD – Negative	4%	(60,304)	-	5.0%	(77,615)	-

(v) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial bearing liabilities.

In respect of the interest bearing accounts held in cash and bank, these amounts have a short time to maturity and are maintained at market rates, accordingly, these are not significantly exposed to interest rate risk.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(v) Interest rate risk (continued)

The following tables summarise the Company's exposure to interest rate risk. The tables include the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2017:							
Financial Assets							
Investments	1,190,759	28,012	1,086,224	863,629	2,166,259	1,187,397	6,522,280
Due from policyholders, brokers and agents	-	-	-	-	-	1,221,160	1,221,160
Recoverable from	-	-	-	-	-	3,781,339	3,781,339
Other receivables	-	-	-	-	-	8,246	8,246
Cash and bank	-	-	-	-	-	722,668	722,668
Total financial assets	1,190,759	28,012	1,086,224	863,629	2,166,259	6,920,810	12,255,693
Financial Liabilities							
Insurance reserves	-	-	-	-	-	7,589,696	7,589,696
Due to reinsurers and coinsurers	-	-	-	-	-	723,899	723,899
Other creditors	-	-	-	-	-	156,228	156,228
Total financial liabilities	-	-	-	-	-	8,469,823	8,469,823
Total interest repricing	1,190,759	28,012	1,086,224	863,629	2,166,259	(1,549,813)	3,785,870

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(v) Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
At 31 December 2016:							
Financial Assets							
Investments	1,131,910	389,941	433,321	2,026,835	1,128,636	845,710	5,956,353
Due from policyholders, brokers and agents	-	-	-	-	-	913,792	913,792
Recoverable from reinsurers	-	-	-	-	-	3,026,806	3,026,806
Other receivables	-	-	-	-	-	13,660	13,660
Cash and bank	-	-	-	-	-	653,101	653,101
Total financial assets	1,131,910	389,941	433,321	2,026,835	1,128,636	5,453,069	10,563,712
Financial Liabilities							
Insurance reserves	-	-	-	-	-	6,667,586	6,667,586
Due to reinsurers and coinsurers	-	-	-	-	-	341,073	341,073
Other creditors	-	-	-	-	-	126,679	126,679
Total financial liabilities	-	-	-	-	-	7,135,338	7,135,338
Total interest repricing	1,131,910	389,941	433,321	2,026,835	1,128,636	(1,682,269)	3,428,374

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(v) Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Company's statement of comprehensive income and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net profit based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed rate financial assets and liabilities for the effects of the assumed changes in interest rates. The change in the interest rates will impact the financial assets and liabilities differently. Consequently, individual analyses were performed. The effect on net profit and equity below is the total of the individual sensitivities done for each of the asset and liabilities. It should be noted that the changes in the net profit and equity as shown in the analysis are non-linear.

	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000	Effect on Net Profit 2016 $'000	Effect on Equity 2016 $'000
Change in basis points:				
-2% (2016: -2%)	48,511	(299,282)	54,794	(146,853)
+2% (2016: +2%)	(48,511)	299,282	(54,794)	146,853

(vi) Price risk

The Company is exposed to equity securities price risk because of investments held by the Company on the statement of financial position classified at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. The Company's investments in equity of other entities are publicly traded on the Jamaica Stock Exchange or other international stock exchanges, with the exception of the unquoted equities disclosed in Note 13.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(vi) Price risk (continued)

Price sensitivity

The table below summaries the impact of increases/decreases of equity securities process on the Company's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity index has increased/decreased by 10% with all other variables held constant.

	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000	Effect on Net Profit 2016 $'000	Effect on Equity 2016 $'000
Change in basis points:				
-10% (2016: -10%)	(58,390)	(58,516)	(20,297)	(62,812)
+10% (2016: +10%)	58,390	58,516	20,297	62,812

(vii) Fair values of financial instruments

The classification of financial instruments at fair value can be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured by reference to quoted price in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the majority of assumptions are market observable.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(vii) Fair values of financial instruments (continued)

Level 3

Included in the Level 3 category are financial assets and liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset class in this category is unlisted equity investments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available which might include the Company's own data.

The following table shows an analysis of financial instruments (excluding reverse repurchase agreements) recorded at fair value by level of fair value hierarchy:

Financial assets

	2017			
	Level 1 $‘000	Level 2 $‘000	Level 3 $‘000	Total Fair Value $‘000
Equity securities	1,167,228	18,331	1,838	1,187,397
Debt securities	-	4,145,409	-	4,145,409
	1,167,228	4,163,740	1,838	5,332,806

	2016			
	Level 1 $‘000	Level 2 $‘000	Level 3 $‘000	Total Fair Value $‘000
Equity securities	829,248	14,624	1,838	845,710
Debt securities	-	3,615,193	-	3,615,193
	829,248	3,629,817	1,838	4,460,903

There were no transfer between Level 1 and Level 2 during the year.

The fair values of the equity securities in Level 1 are based on price quotations at the reporting date.

The equity securities in Level 3 represent unquoted equities that have not been fair valued as it is deemed impractical by management because there is no available data to complete a fair value calculation. As a result, the costs of these equities approximate their fair values.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(vii) Fair values of financial instruments (continued)

The debt securities is comprised of government bonds, corporate bonds, certificate of deposits and reverse repurchase agreements. Government bonds and corporate bonds are valued using interpolated yields derived from quoted prices of similar instruments or broker quotes from market makers. The carrying amount of certificates of deposit and reverse repurchase agreements maturing within one year is assumed to approximate their fair value.

Reconciliation of movements in Level 3 financial investments measured at fair value.

The following table shows a reconciliation of the opening and closing recorded amount of Level 3 assets.

	2017 $'000	2016 $'000
Opening balance	1,838	1,121
Purchases	-	717
	1,838	1,838

4. Capital management

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:

(i) To comply with the capital requirements set by the regulators of the insurance industry within which the Company operates;

(ii) To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits to other stakeholders; and

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy is managed by the Company's management. It is calculated by management, certified by the appointed actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the Company seeks to maintain internal capital adequacy ratios at levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, the Company currently uses the Minimum Capital Test ("MCT") as stipulated by the insurance regulations.

	2017		2016	
	Actual	Minimum Standard	Actual	Minimum Standard
MCT	308.20%	250%	317.05%	250%

5. Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

For financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position date.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) Investment securities classified as fair value through profit or loss or available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or valuation techniques such as discounted cash flow analysis;

(ii) The carrying amount of short-term assets and liabilities maturing within one year is assumed to approximate their fair value. This assumption is applied to the short-term elements of all other financial assets and financial liabilities.

6. Critical accounting estimates and judgements in applying accounting policies

Judgements and estimates are continually evaluated and are based on historical experience and other factors, indicating expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Sources of estimation uncertainty

(a) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. (Notes 11 and 20).

6. Critical accounting estimates and judgements in applying accounting policies (continued)

Sources of estimation uncertainty (continued)

(b) Ultimate liability arising from claims

The determination of the liabilities under insurance contracts represents the liability for future claims payable by the Company based on contracts for the insurance business in force at the statement of financial position date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amount of future premiums that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the Company's experience. (Note 3(a)). At December 2017, the carrying amounts of short-term insurance contracts (claims) was $4.14 billion (2016: $3.67 billion) (Note 15(iv)).

(c) Fair values of financial instruments

As described in Note 5, management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the Company. The financial assets of the Company at the end of the reporting period stated at fair value determined in this manner amounted to $5.33 billion (2016: $4.46 billion) (Note 3(c)(vii)).

Had the fair value of these securities been 2% higher or lower the fair value reserve for the Company would increase/decrease by $106.66 million (2016: $89.22 million).

(d) Post retirement medical plan

In conducting valuation exercises to measure the effect of the post retirement medical plan, the company's external qualified actuaries use judgment and assumptions in determining discount rates and health care costs. These assumptions are detailed in Note 26.

Judgements in applying accounting policies

(a) Impairment of available-for-sale investments

Management makes judgements at each reporting date to determine whether available-for-sale investments are impaired. These investments are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment (Note 2(v)).

(b) Property and equipment and intangible assets

Management exercises judgement in determining whether costs incurred can accrue significant future economic benefits to the Company to enable the value to be treated as a capital expense. Further judgement is applied in the annual review of the useful lives of all categories of property and equipment and intangible assets, and the resulting depreciation or amortisation determined thereon. (Note 2(l)).

7. Responsibilities of the appointed actuary and external auditors

The Board of Directors pursuant to the Insurance Act, 2001 appoints the actuary. The actuary's responsibility is to carry out an annual valuation of the Company's insurance reserves in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders.

The shareholders pursuant to the Jamaican Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and the actuary's report on the insurance liabilities.

8. Expenses by nature

Total expenses:

	2017 $'000	2016 $'000
Staff costs (Note 9)	435,046	450,818
Computer and data processing	137,668	57,993
Advertising and promotion	41,239	42,215
Depreciation and amortisation	27,226	37,245
Repairs and maintenance	39,351	36,720
Utilities and rent	33,173	32,164
FSC insurance regulation fees and other licence fees	26,699	24,434
Motor vehicle	11,254	12,619
Legal and professional fees	9,499	10,741
Auditor's remuneration	10,411	10,501
Directors' fees (Note 24(c))	10,730	10,489
Asset tax	16,885	9,307
Other	21,908	32,391
	821,089	767,637
Less: Claims related expenses	(205,272)	(191,909)
	615,817	575,728

9. Staff costs

	2017 $'000	2016 $'000
Wages and salaries	330,819	325,735
Statutory contributions	37,026	34,605
Share option expense and long-term incentive scheme (Note 24(c))	4,386	30,670
Pension costs - defined contribution scheme (Note 22)	18,133	17,648
Employee benefit obligations (Note 26)	1,000	900
Other staff related costs	43,682	41,260
	435,046	450,818

10. Investment income

	2017 $'000	2016 $'000
Net interest and dividend income	328,341	329,185
Realised fair value gains	58,301	-
Unrealised fair value gains	311,705	69,959
	698,347	399,144

11. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises income tax at 33 1/3%:

	2017 $'000	2016 $'000
Current income tax	122,774	172,199
Deferred income tax (Note 20)	91,413	4,910
	214,187	177,109

The tax charge on the Company's profit differs from the theoretical amount that would arise using the statutory tax rate as follows:

	2017 $'000	2016 $'000
Profit before taxation	695,669	656,063
Tax calculated at a rate of 33 1/3%	231,890	218,688
Adjusted for effects of:		
Income not subject to tax	(17,074)	(42,034)
Expenses not deductible for tax	6,131	4,920
Other	(6,760)	(4,465)
Income tax expense	214,187	177,109

12. Property and equipment

	Computer Equipment	Furniture and Fixtures	Motor Vehicles	Leasehold Improvements	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
At Cost:					
At 31 December 2015	105,534	42,857	75,533	44,576	268,500
Additions	5,459	896	311	743	7,409
Disposals	-	-	(1,457)	-	(1,457)
At 31 December 2016	110,993	43,753	74,387	45,319	274,452
Additions	8,584	458	9,621	-	18,663
Disposals	(1,637)	-	(13,239)	-	(14,876)
At 31 December 2017	117,940	44,211	70,769	45,319	278,239
Accumulated Depreciation:					
At 31 December 2015	92,962	24,445	30,509	6,636	154,552
Charge for the year	10,230	4,283	13,876	4,508	32,897
Disposals	-	-	(1,361)	-	(1,361)
At 31 December 2016	103,192	28,728	43,024	11,144	186,088
Charge for the year	5,519	3,441	13,734	4,532	27,226
Disposals	(1,637)	-	(11,925)	-	(13,562)
As at December 31, 2017	107,074	32,169	44,833	15,676	199,752
Net Book Value:					
At 31 December 2017	10,866	12,042	25,936	29,643	78,487
At 31 December 2016	7,801	15,025	31,363	34,175	88,364

13. Investments

These comprise investments primarily in government securities as follows:

	2017		
	Available for Sale $'000	**Fair Value Through Profit or Loss $'000**	**Total $'000**
Financial assets			
Government of Jamaica ("GOJ")			
Bonds and debentures	102,704	3,529,775	3,632,479
Certificate of deposits	-	59,811	59,811
	102,704	3,589,586	3,692,290
Equity securities			
Quoted	583,325	583,903	1,167,228
Unquoted	1,838	-	1,838
	585,163	583,903	1,169,066
Other			
Reverse repurchase agreements	-	1,185,255	1,185,255
Corporate bonds	-	396,131	396,131
Mutual funds	18,331	-	18,331
	18,331	1,581,386	1,599,717
Accrued interest	1,857	59,350	61,207
Total	708,055	5,814,225	6,522,280

13. Investments (continued)

	2016		
	Available for Sale $'000	**Fair Value Through Profit or Loss $'000**	**Total $'000**
Financial assets			
Government of Jamaica ("GOJ")			
Bonds and debentures	86,759	3,098,410	3,185,169
Certificate of deposits	-	59,520	59,520
	86,759	3,157,930	3,244,689
Equity securities			
Quoted	626,277	202,971	829,248
Unquoted	1,838	-	1,838
	628,115	202,971	831,086
Other			
Reverse repurchase agreements	-	1,488,201	1,488,201
Corporate bonds	13,336	301,777	315,113
Mutual funds	14,624	-	14,624
	27,960	1,789,978	1,817,938
Accrued interest	1,938	60,702	62,640
Total	744,772	5,211,581	5,956,353

Reverse repurchase agreements are short term investments with a maturity of less than 90 days are regarded as cash equivalents for purposes of the statement of cash flows and amounted to $1,185,255,000 (2016 – $1,488,201,000).

Interest rates on the debt securities ranged from 1% to 11.875% (2016: 3% to 11.875%) per annum.

The Financial Services Commission ("FSC") holds GOJ securities valued at $45,000,000 (2016 – $45,000,000) for the Company as security, in accordance with Section 8(1) (B) of the Insurance Regulations 2001.

14. Deferred policy acquisition costs

These are comprised as follows:

	2017 $'000	2016 $'000
Deferred commissions (Note 15(v))	230,016	208,796

15. Insurance liabilities and reinsurance assets

These reserves are as follows:

Short-term insurance contracts

(i) Gross insurance liabilities

	2017 $'000	2016 $'000
Unearned premiums	3,245,935	2,790,804
Claims outstanding	4,145,438	3,673,128
Unearned commissions	198,323	203,654
Total insurance liabilities, gross	7,589,696	6,667,586

(ii) Recoverable from reinsurers

	2017 $'000	2016 $'000
Unearned premiums	2,280,619	1,969,367
Claims outstanding	1,500,720	1,057,439
Total reinsurers' share of the insurance liabilities	3,781,339	3,026,806

(iii) Provision for unearned premiums

	2017 $'000	2016 $'000
Gross unearned premiums	3,245,935	2,790,804
Recoverable from reinsurers	(2,280,619)	(1,969,367)
Net unearned premiums at end of year	965,316	821,437

(iv) Provision for claims outstanding

	2017 $'000	2016 $'000
Gross claims outstanding	4,145,438	3,673,128
Recoverable from coinsurers and reinsurers	(1,500,720)	(1,057,439)
Net claims outstanding at end of year	2,644,718	2,615,689

15. Insurance liabilities and reinsurance assets (continued)

(v) Deferred policy acquisition costs

	2017	2016
	$'000	$'000
Deferred commissions (Note 14)	230,016	208,796
Unearned commissions	(198,323)	(203,654)
Net deferred policy acquisition costs	31,693	5,142

16. Other receivables

	2017 $'000	2016 $'000
Staff loans and advances	509	785
Prepayments	7,829	9,609
Sundry receivables	7,737	12,875
	16,075	23,269

17. Cash and bank

	2017 $'000	2016 $'000
Cash and bank balances – J$	573,660	140,999
Cash and bank balances – US$	149,008	512,102
Cash and bank balances	722,668	653,101

The weighted average effective interest rates on cash balances for the year were as follows:

	2017 %	2016 %
Cash at bank		
- J$	0.25 – 0.40	0.25 - 0.40
- US$	0.10	0.05 – 0.10

In an effort to maximise interest income, the Company transfers cash from short-term deposits to its current accounts only when required.

18. Share capital and other capital reserves

(a) Share capital:

	2017 No. of Shares ('000)	2016 No. of Shares ('000)
Authorised – ordinary shares of no par value:		
1 January and 31 December	462,575	462,575
	$'000	**$'000**
Issued and fully paid - ordinary shares of no par value:		
1 January and 31 December	1,138,500	1,138,500

(b) Other capital reserves:

Other capital reserves consist of the following:

	2017 $'000	2016 $'000
Capital redemption reserve (i)	213,000	213,000
Capital reserves (ii)	167	167
	213,167	213,167

(i) Capital redemption reserve

	2017 $'000	2016 $'000
Transfer from retained earnings to facilitate redemption of 213,000,000 15% cumulative redeemable convertible preference shares of no par value	213,000	213,000

The preference shares were fully redeemed during 2011.

18. Share capital and other capital reserves (continued)

(b) Other capital reserves:

(i) Capital reserves

	2017 $'000	2016 $'000
Realised gain on disposal of investments	151,141	151,141
Share premium	170	170
	151,311	151,311
Capitalisation as bonus shares	(151,144)	(151,144)
	167	167

Realised capital reserves are available for distribution to shareholders, subject to transfer tax at 4% (2016: 4%)

19. Share options

	2017 $'000	2016 $'000
Share options	-	2,289

The ultimate parent company operates a share option plan for executives employed by Guardian Holdings Limited and its subsidiaries (the "Group"), inclusive of executives at subsidiaries. A total of 33,890,023 shares have been allocated to this plan since inception inclusive of bonus issues and stock dividends. Increases were approved at the Annual General Meeting of Guardian Holdings Limited in 1999, 2004 and in 2011. A member of the Company's executive was granted share options as a part of the plan.

On 9 March 2017, the Board of Directors of Guardian Holdings Limited approved the repurchase of options which resulted in a reduction of $2,289,000. Effective 1 January 2017, the Group's performance share option plan was replaced with a Group cash based long-term incentive plan.

20. Deferred tax liabilities, net

Deferred taxes are calculated on all temporary differences under the liability method using a tax rate of 33 1/3%. Net liabilities recognised on the statement of financial position are as follows:

	2017 $'000	2016 $'000
Net liabilities at beginning of year	(161,155)	(124,165)
Deferred tax charged to income tax expense (Note 11)	(91,413)	(4,910)
Deferred tax charged to other comprehensive income	(51,990)	(32,080)
Net liabilities at end of year	(304,558)	(161,155)

20. Deferred tax liabilities, net (continued)

The movement in deferred tax assets (liabilities) during the year is as follows:

	Employee Benefit Obligation & Accrued Vacation
	$'000
Deferred tax assets	
At 31 December 2015	5,093
Credited to other comprehensive income	100
Credited to income tax expense	361
At 31 December 2016	5,554
Credited to other comprehensive income	267
Credited to income tax expense	281
At 31 December 2017	6,102

	Accelerated Tax Depreciation & Revaluation	**Foreign Exchange Gains**	**Accrued Interest & Fair Value Gains**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Deferred tax liabilities				
At 31 December 2015	3,591	29,922	95,745	129,258
Charged to other comprehensive income (Note 27)	-	-	32,180	32,180
(Credited) Charged to income tax expense	(1,675)	(15,595)	22,541	5,271
At 31 December 2016	1,916	14,327	150,466	166,709
Charged to other comprehensive income (Note 27)	-	-	52,257	52,257
(Credited) Charged to income tax expense	(1,483)	(10,083)	103,260	91,694
At 31 December 2017	433	4,244	305,983	310,660

	2017	**2016**
	$'000	**$'000**
Deferred tax assets	6,102	5,554
Deferred tax liabilities	(310,660)	(166,709)
Net deferred tax liabilities	(304,558)	(161,155)

21. Other creditors

	2017 $'000	2016 $'000
Staff bonus and gratuity	79,831	103,941
General consumption tax and premium tax	118,943	15,747
Professional fees	10,685	7,287
Regulatory fees	6,610	6,020
Due to related parties (Note 24(b))	50,980	4,583
Other	8,122	4,848
	275,171	142,426

22. Retirement benefit plan

The Company has established a defined contribution plan covering all permanent employees. The assets of the funded plan are held independently of the Company's assets in separate trustee administered funds.

The defined contribution plan was established 1 January 2013. Employees are required to make a basic contribution of 5% of pensionable salary and may also make voluntary contributions of no more than 5%, while the Company matches employee contributions up to a maximum of 10%. Contributions for the year of $18,133,000 (2016 – $17,648,000) have been charged to the statement of comprehensive income (Note 9).

23. Commitments

Operating leases

The future aggregate minimum lease payments under renewable operating leases payable to third parties are as follows:

	2017 $'000	2016 $'000
Within one year	16,580	20,283
After one year but not more than five years	33,160	60,849
	49,740	81,132

24. Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions or are under common control or influence.

(a) The following transactions were carried out with related parties:

	2017 $'000	2016 $'000
(i) Sale of insurance contracts		
Fellow subsidiaries:		
Guardian Life Limited	26,814	24,151
Guardian Resorts Jamaica Limited	57,730	56,536
	84,544	80,687
(ii) Other expenses		
Ultimate parent:		
Guardian Holdings Limited	1,352	1,485
Fellow subsidiaries:		
Guardian General Limited	18	146
Guardian Life of the Caribbean	-	3,084
Guardian Life Limited	21,294	12,653
Guardian Shared Services Limited	118,330	41,666
	140,994	59,034

24. Related party transactions and balances (continued)

(b) Year end balances due to related parties are as follows:

	2017 $'000	2016 $'000
Fellow subsidiaries:		
Guardian General Insurance Limited	18	-
Guardian General St. Lucia Holding	2	-
Guardian Life Limited	41,244	404
Guardian Shared Services Limited	9,716	4,179
(Note 21)	50,980	4,583

All amounts due to related parties are unsecured, non-interest bearing and are without fixed repayment terms.

(c) Key management compensation

	2017 $'000	2016 $'000
Salaries and other short-term employee benefits	94,912	84,816
Share options and long-term incentive plan	4,386	30,670
Statutory contributions	6,697	8,699
Pension benefits	4,057	4,754
	110,052	128,939
Directors' emoluments –		
Fees (Note 8)	10,730	10,489

25. Dividends paid

During the year, the Company made a dividend payment of $415,000,000 (2016 – $450,000,000) to its parent company. The dividend per share is calculated as $0.90 (2016 – $0.97).

26. Employee benefit obligation

Post-retirement medical benefits

	2017 $'000	2016 $'000
Present value of obligation	12,200	11,100
Net liability in statement of financial position	12,200	11,100

The amounts recognised in the statement of comprehensive income are as follows:

	2017 $'000	2016 $'000
Interest on obligation	1,000	900
Net cost for year recognised in the statement of comprehensive income (Note 9)	1,000	900
Items in Other Comprehensive Income (OCI):		
Re-measurement loss of employee benefit obligation, gross	800	300
Net cost from statement of comprehensive income	1,800	1,200
Re-measurement of employee benefit obligation, gross	800	300
Deferred income tax	(267)	(100)
Re-measurement of employee benefit, net of tax	533	200

Movements in the net liability recognised in the statement of financial position are as follows:

	2017 $'000	2016 $'000
Net liability at start of year	11,100	10,500
Net cost from statement of comprehensive income	1,800	1,200
Contributions by employer	(700)	(600)
	12,200	11,100

Principal actuarial assumptions at the statement of financial position date:

	2017	2016
Discount rate at end of year (pa)	8%	9%
Rate of increase in medical claims cost/premiums (pa)	8%	9%

The mortality assumptions used for the pensioners are based on the PA (90) Tables for Pensioners with ages reduced by six years.

27. Revaluation reserves

Revaluation reserves consist of the following:

	2017 $'000	2016 $'000
Investment revaluation reserve (i)	396,675	292,160

(i) Investment revaluation reserve:

	2017 $'000	2016 $'000
January 1	292,160	200,291
Fair value gains	156,772	124,049
Effect of taxes on fair value gain	(52,257)	(32,180)
	104,515	91,869
December 31	396,675	292,160

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