Guardian General Insurance Jamaica Limited

Financial Statements

For the Year Ended 31 December 2018

(Presented in thousands of 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 2018, 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 2018 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.

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

15 February 2019

Guardian General Insurance Jamaica Limited
Statement of Comprehensive Income
Year ended 31 December 2018
(Presented in thousands of Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	Restated 2017 $'000
Gross premiums written		7,151,962	7,471,035
Outward reinsurance premiums		(5,219,342)	(5,538,432)
Premiums written, net of reinsurance		1,932,620	1,932,603
Change in provision for unearned premiums		(11,801)	(143,877)
Premiums earned, net of reinsurance		1,920,819	1,788,726
Claims incurred, net of reinsurance		(1,084,188)	(1,210,758)
Commissions earned		751,497	563,658
Commissions paid		(600,814)	(535,155)
Change in net deferred policy acquisition costs		(1,380)	26,551
Administrative expenses	8, 27	(615,162)	(615,717)
Underwriting profit		370,772	17,305
Investment income	10	309,854	328,341
Net fair value gains	10	176,491	370,006
Net impairment reversal on financial assets	10	47,581	-
Other income		9,226	5,733
Foreign exchange gains (losses)		61,475	(25,616)
Profit before taxation		975,399	695,769
Taxation	11	(310,393)	(214,187)
Net profit attributable to owners of the parent	27	665,006	481,582
Other comprehensive income:			
Amount not to be reclassified to profit or loss in future periods:			
Re-measurement of employee benefit obligation, net of taxes	25, 27	(2,667)	(2,000)
Amount to be reclassified to profit or loss in future periods:			
Investment fair value gain, net of taxes	26	101,898	104,515
Total other comprehensive income	27	99,231	102,515
Total comprehensive income attributable to owners of the parent	27	764,237	584,097

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

Guardian General Insurance Jamaica Limited

Statement of Financial Position

As at 31 December 2018

(Presented in thousands of Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	Restated 2017 $'000
ASSETS			
Property and equipment	12	95,083	78,487
Investments	13	6,484,896	6,522,280
Due from policyholders, brokers and agents		1,209,692	1,221,160
Deferred policy acquisition costs	14	257,176	230,016
Recoverable from reinsurers	15	3,784,289	3,781,339
Other receivables	16	42,448	16,075
Cash and bank	17	918,856	722,668
Total assets		12,792,440	12,572,025
EQUITY			
Share capital	18(a)	1,138,500	1,138,500
Other capital reserves	18(b)	213,167	213,167
Revaluation reserves	26	474,439	396,675
Retained earnings	27	1,945,799	1,875,298
Total equity		3,771,905	3,623,640
LIABILITIES			
Insurance reserves	15	7,475,735	7,589,696
Deferred tax liabilities, net	19	443,007	303,825
Due to reinsurers and co-insurers		740,466	723,899
Other creditors	20	172,363	275,171
Employee benefit obligation	25, 27	18,500	14,300
Taxation payable		170,464	41,494
Total liabilities		9,020,535	8,948,385
Total equity and liabilities		12,792,440	12,572,025

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

On 15 February 2019, 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 2018
(Presented in thousands of 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 2017		1,138,500	2,289	213,167	292,160	1,808,427	3,454,543
Net profit, as restated	27	-	-	-	-	481,582	481,582
Repurchase – vested options		-	(2,289)	-	-	2,289	-
Dividends paid	24	-	-	-	-	(415,000)	(415,000)
Other comprehensive income, as restated	27	-	-	-	104,515	(2,000)	102,515
Balance at 31 December 2017, as restated	27	1,138,500	-	213,167	396,675	1,875,298	3,623,640
Impact of initial application of IFRS 9	27	-	-	-	(24,134)	(21,838)	(45,972)
Balance at 1 January 2018 (restated)	27	1,138,500	-	213,167	372,541	1,853,460	3,577,668
Net profit		-	-	-	-	665,006	665,006
Dividends paid	24	-	-	-	-	(570,000)	(570,000)
Other comprehensive income		-	-	-	101,898	(2,667)	99,231
Balance at 31 December 2018		1,138,500	-	213,167	474,439	1,945,799	3,771,905

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

Guardian General Insurance Jamaica Limited

Statement of Cash Flows

Year ended 31 December 2018

(Presented in thousands of Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	Restated 2017 $'000
Cash flows from operating activities			
Net cash provided by operating activities (Page 8)		363,036	550,464
Cash flows from investing activities			
Purchase of property and equipment	12	(55,417)	(18,663)
Proceeds from disposal of property and equipment		11,519	4,688
Investments, net		(554,541)	(343,528)
Net cash used in investing activities		(598,439)	(357,503)
Cash flows from financing activities			
Dividends paid	24	(570,000)	(415,000)
Net cash used in financing activities		(570,000)	(415,000)
Net decrease in cash and cash equivalents		(805,403)	(222,039)
Effect of impairment loss		29,295	-
Effect of exchange rate on cash and cash equivalents		4,438	(11,340)
Cash and cash equivalents at beginning of year		1,907,923	2,141,302
Cash and cash equivalents at end of year		1,136,253	1,907,923
Cash and cash equivalents comprise:			
Short-term investments	13	217,397	1,185,255
Cash and bank	17	918,856	722,668
		1,136,253	1,907,923

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 2018

(Presented in thousands of Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	Restated 2017 $'000
Cash flows from operating activities			
Net profit		665,006	481,582
Adjustments for:			
Depreciation of property and equipment	12	31,510	27,226
Impairment loss reversed (net)		(93,554)	-
Gain on disposal of property and equipment		(4,208)	(3,374)
Gain on disposal of investments	10	(2,671)	(58,301)
Net interest and dividend income	10	(309,854)	(328,341)
Tax expense	11	310,393	214,187
Employee benefit obligations	25	1,100	1,000
Unrealised exchange gains on foreign currency		(4,438)	11,340
Unrealised fair value gain on investments	10	(173,820)	(311,705)
(Decrease)Increase in insurance reserves		(113,961)	922,110
Changes in operating assets and liabilities:			
Due from policyholders, brokers and agents		4,917	(307,368)
Deferred policy acquisition costs		(27,160)	(21,220)
Recoverable from reinsurers		(2,950)	(754,533)
Taxation paid (recoverable)		(104,276)	(173,878)
Other receivables		(25,543)	7,194
Due to related parties		(50,438)	46,397
Due to reinsurers and co-insurers		16,567	382,826
Other creditors		(53,200)	86,348
Employee benefit obligations paid	25	(900)	(800)
Net cash provided by/(used in) operating activities		62,520	220,690
Interest and dividend received		300,516	329,774
Net cash provided by operating activities (Page 7)		363,036	550,464

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.

2.1 Basis of preparation

(i) **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.

(ii) **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 fair value through other comprehensive income.

(iii) **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.

2. Significant accounting policies (Continued)

2.2 Adoption of new and revised International Financial Reporting Standards

(i) New standards and amendments/revisions to published standards and interpretations effective in 2018

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

- ***Classification and measurement of financial assets and liabilities***
  IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

  Under IFRS 9 entities initially measure a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction cost. Debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost (AC) or fair value through other comprehensive income (FVOCI).

  Equity instruments are generally measured at FVPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

  IFRS 9 also contain requirements for the classification and measurement of financial liabilities. For financial liabilities designated at FVPL, the change in fair value that is attributable to changes in credit risk is presented in OCI and the remaining amount of change in the fair value is presented in profit or loss. If the presentation in OCI would create or enlarge an accounting mismatch in profit or loss, an entity shall present all gains or losses in profit or loss.

- ***Impairment***
  IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to debt instruments measured at AC or FVOCI, most loan commitments, financial guarantee contracts, lease receivables and to contract assets.

  Entities are required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL.

  Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial asset, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date.

  For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised from initial recognition.

2. Significant accounting policies (Continued)

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

(i) New standards and amendments/revisions to published standards and interpretations effective in 2018 (continued)

IFRS 9 Financial Instruments (continued)

- ***Hedge accounting***
  The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39, that is, fair value hedges, cash flow hedges and net investment hedges. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is no longer required.

The Company has adopted IFRS 9, which resulted in fundamental changes to accounting for its financial assets. Hedge accounting is not applicable to the Company and there are no changes to the Company’s classification of financial liabilities, that is, at amortised cost.

The changes in accounting policies in respect of adopting IFRS 9 are described in Notes 2.14 and 2.22, and the impact of the initial application is disclosed in Note 27.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 replaces all previous revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. IFRS 15 also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

IFRS 15 did not have a material impact on the Company’s accounting policies and did not result in retrospective adjustments.

2. Significant accounting policies (Continued)

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

(i) New standards and amendments/revisions to published standards and interpretations effective in 2018 (continued)

Amendments to IAS 40 Investment Property: Transfers of Investment Property
The amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The amendments had no impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for the item has been paid or received in advance in a foreign currency, which resulted in the recognition of a non-monetary asset or a non-monetary liability (e.g. non-refundable deposit or deferred revenue).

The interpretation specifies that the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, an entity must determine a date of the transactions for each payment or receipt of advance consideration.

The adoption of this interpretation did not have a material impact on the Company.

Annual Improvements to IFRSs 2014 - 2016 Cycle

- ***Amendments to IAS 28 Investments in Associates and Joint Ventures - Measuring investees at fair value through profit or loss on an investment-by investment basis***

  IAS 28 allow venture capital organizations, mutual funds, unit trusts and similar entities (including investment-linked insurance funds) to elect measuring their investments in joint ventures and associates at fair value through profit or loss. The amendments clarify that this election can be made on an investment-by-investment basis, upon initial recognition.

  The amendments also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments had no impact on the Company's financial statements.

2. Significant accounting policies (Continued)

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

(ii) New standards and amendments/revisions to published standards and interpretations effective in 2018 but not applicable to the Company

The following new IFRS amendments that have been issued do not apply to the activities of the Company:

- Amendments to IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Annual Improvements to IFRSs 2014 - 2016 Cycle:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters

(iii) 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 standards, interpretations and amendments issued that are not yet effective as at 31 December 2018 and have not been early adopted by the Company. For all standards, interpretations and amendments effective 1 January 2019, except for IFRS 16 Leases, 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 2019:

- IFRS 9 Financial Instruments - Amendments - Prepayment Features with Negative Compensation
- 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 finalised any amendments that result from its research project on the equity method of accounting.
- IFRS 16 Leases (see Page 14)
- IAS 19 Employee Benefits - Amendments - Plan Amendment, Curtailment or Settlement
- IAS 28 Investment in Associates and Joint Ventures - Amendments - Long-term Interests in 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 - Borrowing costs eligible for capitalisation
- IFRIC 23 Uncertainty over Income Tax Treatments

Effective 1 January 2020:

- Conceptual Framework for Financial Reporting

Effective 1 January 2021:

- IFRS 17 Insurance Contracts

2. Significant accounting policies (Continued)

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

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

IFRS 16 Leases
IFRS 16, which is effective 1 January 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets (right-of-use assets) and lease liabilities on the statement of financial position for most leases. Lessees will also now separately recognise interest expense on the lease liability and depreciation expense on the right-of-use asset in profit or loss.

Lessor accounting is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Company will adopt IFRS 16 on 1 January 2019 and elect the modified retrospective approach transition option and the practical expedients permitted under this approach. Under the modified retrospective approach, the Company will elect the option to measure the right-of-use asset as the lease liability adjusted for prepaid or accrued payments and the Company will not restate comparative amounts.

The Company has completed an initial assessment of the potential impact of adopting IFRS 16 on its financial statements. The most significant impact identified is the Company will recognise new assets and liabilities for its operating leases of office space and motor vehicles. In addition, the nature of expenses related to these leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

On date of initial application of IFRS 16, the Company will recognise right-of-use assets and lease liabilities of approximately $46.92 million and $46.92 million respectively.

2.3 Revenue recognition

(i) 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 2.6). Commissions earned on the reinsurance of risks are credited to revenue over the life of the policies.

2. Significant accounting policies (Continued)

2.3 Revenue recognition (continued)

(ii) Investment income
Interest income is recognised using the effective interest method. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except under IFRS 9 for:

- ► Purchased or originated credit-impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- ► Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost i.e. net of the expected credit loss provision.

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

(iv) Realised and unrealised investment gains and losses
Realised and unrealised gains and losses on investments measured at amortised cost or fair value through profit or loss are recognised in profit or loss in the period in which they arise.

Unrealised gains and losses on investment securities measured at fair value through other comprehensive income are recognised in other comprehensive income. On derecognition, debt securities gains and losses accumulated in other comprehensive income are reclassified profit or loss.

2.4 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.

2. Significant accounting policies (Continued)

2.4 Insurance contracts (continued)

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 profit or loss 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.

2.5 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 profit or loss.

2.6 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.

2.7 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.

2. Significant accounting policies (Continued)

2.8 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. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising on these revisions are included with claims expense in the current year.

2.9 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.

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 profit or loss.

2.10 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.

2.11 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.

2.12 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.

2. Significant accounting policies (Continued)

2.12 Property and equipment and intangible assets (continued)

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 profit or loss during the financial period in which they are incurred.

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 profit or loss.

2.13 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 profit or loss.

2. Significant accounting policies (Continued)

2.14 Investments

Policy applicable from 1 January 2018

(a) Initial recognition and measurement

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

At initial recognition, the Company measures financial assets at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Company's financial assets include cash and bank deposits, investment in debt and equity securities, interest receivable, receivables arising from insurance contracts and reinsurance contracts and other loans and receivables.

(b) Classification and subsequent measurement

Debt instruments

The Company's debt instruments are measured in accordance with the business models determined for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies its debt instruments:

(i) Amortised cost - Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowance recognised. In addition to certain debt securities, the Company's loans and receivables are carried at amortised cost.

(ii) Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss.

(iii) Fair value through profit or loss - Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in profit or loss in the period in which it arises. The Company may, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets held for trading, or are managed and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss.

2. Significant accounting policies (Continued)

2.14 Investments (continued)

Policy applicable from 1 January 2018 (continued)

(b) Classification and subsequent measurement (continued)

Debt instrument (continued)

The Company reclassifies debt instruments when and only when its business model for managing these assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent.

Business model assessment

The Company determines its business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. Factors considered by the business units in determining the business model for a group of assets include:

- the stated policies and objectives for the group of assets and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets with the duration of any related liabilities or expected cash outflows or realising cash flows through sale of the assets;
- how performance of the group of assets is evaluated and reported to management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

If cash flows after initial recognition are realised in a way that is different from original expectations, the business units do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

The solely payment of principal and interest (SPPI) test

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs, as well as a profit margin.

Where the business model is to hold assets and collect contractual cash flows or to collect contractual cash flows and sell, the Company's business units assesses whether the financial assets' cash flows represent solely payments of principal and interest. In making this assessment, the Company's business units consider whether the contractual cash flows are consistent with a basis lending arrangement i.e. the definition of interest. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

2. Significant accounting policies (Continued)

2.14 Investments (continued)

Policy applicable from 1 January 2018 (continued)

(b) Classification and subsequent measurement (continued)

Equity instruments

Subsequent to initial recognition, the Company measures all equity investments at fair value, and changes in the fair value of equity instruments are recognised in profit or loss.

(c) Dercognition of financial asset

A financial asset (or when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- the Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risk and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Policy applicable prior to 1 January 2018

Investment securities within the scope of IAS 39 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)

2.14 Investments (continued)

Policy applicable prior to 1 January 2018 (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 profit or loss 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 derecognised, at which time, the cumulative gain or loss is recognised in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the Investment revaluation reserve to profit or loss. 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.

2.15 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)

2.15 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 profit or loss, 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.

2.16 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)

2.16 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 profit or loss:

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

(v) **Cash-based long-term performance incentive plan**
Effective 1 January 2017, the Company replaced its equity-settled share-based compensation plan with a cash-based long-term performance incentive plan. Accruals are made annually based on the ultimate expected and approved payments to eligible executives.

(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.

2.17 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.

2.18 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 profit or loss on a straight-line basis over the period of the lease.

2.19 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)

2.20 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.

Cash and cash equivalents are carried at amortised cost on the statement of financial position.

2.21 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.

2.22 Impairment of financial assets

Policy applicable from 1 January 2018
At each reporting date, the Company assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets measured at amortised cost and fair value through other comprehensive income (excluding equity instruments).

The Company measures loss allowances on its debt instruments at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised is 12-month ECL:

- ► Debt securities that are determined to have low credit risk at the reporting date; and
- ► Other financial instruments for which credit risk has not increased significantly since initial recognition.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial asset, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date.

For receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Loss allowances for ECL are presented in the financial statements as follows:

- Financial assets measured at amortised cost: the loss allowance is deducted from the gross carrying amount of the assets in the statement of financial position. Movement in ECL is recognised in profit or loss.

- Debt instruments measured at fair value through other comprehensive income: the loss allowance is recognised in other comprehensive income with the corresponding entry recognised in profit or loss. The loss allowance does not reduce the carrying amount of the financial asset in the statement of financial position.

2. Significant accounting policies (Continued)

2.22 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)
Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring as at the reporting date with the risk of default occurring as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

The quantitative assessment to identify whether a significant increase in credit risk has occurred for an exposure is performed by comparing:

- the remaining lifetime probability of default as at the reporting date; with
- the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The qualitative assessment to identify whether credit risk has increased significantly since initial recognition takes into account the following:

- Actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor’s ability to meet its obligations;
- Actual or expected significant changes in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the debtor;
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor;
- Actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant change in the debtor's ability to meet its debt obligation.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrated otherwise.

Despite the aforementioned, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfil its contractual cash flow obligations. The Company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

2. Significant accounting policies (Continued)

2.22 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)
Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt instruments carried at fair value through comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the debtor or issuer;
- A breach of contract, such as a default or past due event;
- The disappearance of an active market for a financial asset because of financial difficulties;
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- Rating agencies' assessments of creditworthiness.

Definition of default
The Company considers a financial asset to be in default when:
- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the debtor is past due more than 90 days unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

In assessing whether a debtor is in default, the Company considers indicators that are qualitative, quantitative and based on data developed internally and obtained from external sources.

Write-off
The Company writes off financial assets, either partially or in full, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Measurement of expected credit losses
The measurement of expected credit losses is a function of:
(i) Probability of default - an estimate of the likelihood of default over a given time horizon;
(ii) Loss given default - an estimate of the loss arising in the case where a default occurs at a given time; and
(iii) Exposure of default - an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise.

2. Significant accounting policies (Continued)

2.22 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)
Measurement of expected credit losses (continued)
The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Forward-looking information considered by the Company includes economic data and forecasts published by governmental bodies and monetary authorities, supranational organisations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and selected private-sector and academic forecasters.

Expected credit losses are measured as the present value of all cash shortfalls i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The mechanics of the expected credit losses method are summarised below:

- A financial instrument that is not credit-impaired on initial recognition, a 12-month ECL allowance is calculated. The Company calculates the12-month ECL allowance based on the expectation of a default occurring in the twelve months following the reporting date. The expected12-month default probability is applied to a forecast exposure at default and multiplied by the expected loss given default, and discounted by the original effective interest rate.
- When a financial instrument has shown a significant increase in credit risk since initial recognition, the Company records an allowance for life-time ECL. The mechanics are similar to 12-month ECL calculation on a financial instrument that is not credit-impaired on initial recognition, but default probability and loss given default are estimated over the life of the instrument.
- For a financial instrument that is credit-impaired, but is not a purchased or originated credit-impaired financial instrument, the Company records an allowance for lifetime ECL calculated similar to lifetime ECL on a financial instrument that has shown a significant increase in credit risk since initial recognition.
- Purchased or credit-impaired financial assets are assets that are credit-impaired on initial recognition. ECL on these assets are always measured on a lifetime basis, discounted by a credit adjusted effective interest rate. The Company has no purchased or credit-impaired financial instruments.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type; credit risk ratings; nature, size and industry of debtors; collateral type; and geographic location of the debtor.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

2. Significant accounting policies (Continued)

2.22 Impairment of financial assets (continued)

Policy applicable prior to 1 January 2018
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 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 profit or loss – is removed from other comprehensive income and recognised in 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.

2. Significant accounting policies (Continued)

2.22 Impairment of financial assets (continued)

Policy applicable prior to 1 January 2018 (continued)
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 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, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.23 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.

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. When one is available the Company measures the fair value of an instrument using quoted prices in an active market. If there is no quoted price in an active market, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making use of market inputs and relying as little as possible on entity-specific inputs.

2. Significant accounting policies (Continued)

2.23 Fair value measurement (continued)

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.

2.24 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.

2.25 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.

3. Insurance and financial risk management (Continued)

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.

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.

3 Insurance and financial risk management (continued)

(a) Insurance risk (continued)

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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

		2013 and prior $'000	2014 $'000	2014 and prior $'000	2015 $'000	2015 And prior $'000	2016 $'000	2016 And prior $'000	2017 $'000	2017 And prior $'000	2018 $'000	2018 and Prior $'000
2014	Paid during year	686,969	442,994	1,129,963	-	-						
	UCAE, end of year	1,366,641	594,180	1,960,821	-	-						
	IBNR, end of year	168,605	420,675	589,280	-	-						
	Ratio: excess (deficiency)	11.20%										
2015	Paid during year	366,661	271,092	637,753	493,853	1,131,606						
	UCAE, end of year	1,011,975	485,658	1,497,633	489,657	1,987,290						
	IBNR, end of year	79,859	143,308	223,167	361,207	584,374						
	Ratio: excess (deficiency)	14.26%		7.51%								
2016	Paid during year	232,835	122,301	355,136	216,715	571,851	493,213	1,065,064				
	UCAE, end of year	751,599	404,080	1,155,679	429,545	1,585,224	467,738	2,052,962				
	IBNR, end of year	59,767	32,847	92,614	125,057	217,671	345,056	562,727				
	Ratio: excess (deficiency)	16.17%		12.11%		7.66%						
2017	Paid during year	164,202	67,839	232,041	99,656	331,697	283,081	614,778	566,950	1,181,728		
	UCAE, end of year	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	74,059	14,775	88,834	41,680	130,514	85,085	215,599	352,424	568,023		
	Ratio: excess (deficiency)	17.24%		17.26%		15.85%		11,25%				
2018	Paid during year	158,583	58,492	217,075	61,522	278,597	58,182	336,779	336,192	672,971	568,470	1,241,441
	UCAE, end of year	416,215	170,204	586,419	235,478	821,897	291,477	1,133,374	344,027	1,457,401	495,682	1,953,083
	IBNR, end of year	57,292	24,732	82,024	41,833	123,857	12,304	136,161	80,617	216,778	317,605	534,383
	Ratio: excess (deficiency)	16.77%	29.58%	17.24%	23.00%	17.26%	20.64%	15.85%	16.92%	11.25%		

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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:

	2018	**2017**
	$'000	**$'000**
Property	92,075	74,581
Motor	1,962	11,325
Marine	952	1,806
Accident	154,335	64,039
Engineering	8,428	8,242
	257,752	159,993

(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.

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(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.

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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

a) Asset bearing credit risk

	Maximum Exposure	
	2018 **$'000**	**2017** **$'000**
Credit risk exposures are as follows:		
Reinsurance recoverable	1,613,229	1,500,720
Investment securities measured under IFRS 9		
- Fair value through other comprehensive income	4,622,291	-
- Amortised cost	212,547	-
Investment securities measured under IAS 39		
- Available for sale	-	122,892
- Fair value through profit or loss	-	5,230,322
Due from policyholders, brokers and agents	1,209,692	1,221,160
Other receivables	29,651	8,246
Cash and bank	918,856	722,668
	8,606,266	8,806,008

b) Credit quality of reinsurance and financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings, if available, or to a rating assigned by the investment manager using an approach consistent with that used by Standard and Poor's.

AAA
An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA
An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment is very strong.

A
An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB
An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

b) Credit quality of reinsurance and financial assets (continued)

Below BBB
Obligations rated 'Below BBB' are regarded as having significant speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Not Rated
This indicates that there is insufficient information on which to base a rating. These balances are current and are monitored regularly for impairment. This classification mainly includes obligations due from individuals and short-term securities.

The following tables set out the credit quality analysis for financial assets measured at amortised cost and fair value through other comprehensive income

	12-month ECL 2018 $'000	Lifetime ECL 2018 $'000	Not credit impaired 2018 $'000	Total 2018 $'000
Investment securities measured at fair value through other comprehensive income				
Below BBB	4,622,291	-	-	4,622,291
Gross carrying amount	4,622,291	-	-	4,622,291
Investment securities measured at amortised cost				
Below BBB	217,728	-	-	217,728
Gross carrying amount	217,728	-	-	217,728
Loss allowance	(5,181)	-	-	(5,181)
Net carrying amount	212,547	-	-	212,547
Loans and receivables				
Not rated	-	1,235,035	1,642,880	2,877,915
Gross carrying amount	-	1,235,035	1,642,880	2,877,915
Loss allowance – Due from policy holders, brokers and agents	-	(25,343)	-	(25,343)
Net carrying amount	-	1,209,692	1,642,880	2,852,572
Cash and bank				
A	686,805	-	-	686,805
BBB	43,710	-	-	43,710
Below BBB	193,112	-	-	193,112
Gross carrying amount	923,627	-	-	923,627
Loss allowance	(4,771)	-	-	(4,771)
Net carrying amount	918,856	-	-	918,856

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

b) Credit quality of reinsurance and financial assets (continued)

Comparative information under IAS 39
An analysis of the credit quality of financial assets (excluding equity instruments) that were neither past due nor impaired as at 31 December 2017 is as follows.

At 31 December 2017

	A	BBB	Below BBB	Not Rated	Total
	$'000	$'000	$'000	$'000	$'000
Investment securities:					
- Available for sale	-	-	122,892	-	122,892
- Fair value through profit or loss	-	-	5,230,322	-	5,230,322
Loans and receivables	-	-	-	2,730,126	2,730,126
Cash and bank	551,716	9,948	161,004	-	722,668
	551,716	9,948	5,514,218	2,730,126	8,806,008

	Neither past due nor impaired $'000	Past due but not impaired $'000	Total $'000
As at 31 December 2017			
Reinsurance recoverable	1,500,720	-	1,500,720
Investment securities	5,353,214	-	5,353,214
Due from policy holders, brokers and agents	1,080,186	140,974	1,221,160
Other receivables	8,246	-	8,246
Cash and cash equivalents	722,668	-	722,668
	8,665,034	140,974	8,806,008

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

c) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial asset. Reconciling items include the following:

- New assets originated or purchased, which reflect the allowance related to assets newly recognized during the period.
- Assets derecognised, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.
- Net transfer to/(from) 12-month ECL and lifetime ECL, which are presumed to occur before any corresponding remeasurement of the allowance.
- Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; changes in the measurement following a transfer between 12-month ECL and lifetime ECL; and unwinding of the time value discount due to the passage of time.

Comparative amounts (2017) represent impairment provisions for credit losses and reflect measurement basis under IAS 39.

	12-month ECL 2018 $'000	Lifetime ECL 2018 $'000	Total 2018 $'000	Total 2017 $'000
Investment securities measured at fair value through other comprehensive income				
Balance at 1 January 2018 (restated)	100,436	16,829	117,265	-
New assets originated or purchased	22,110	-	22,110	-
Remeasurements	(30,118)	(16,829)	(46,947)	-
Balance at 31 December 2018	92,428	-	92,428	-
Investment securities measured at amortised cost				
Balance at 1 January 2018 (restated)	35,128	-	35,128	-
Remeasurements	(29,947)	-	(29,947)	-
Balance at 31 December 2018	5,181	-	5,181	-
Loans and receivables				
Balance at 1 January 2018 (restated)	18,792	-	18,792	-
Remeasurements	6,551	-	6,551	-
Balance at 31 December 2018	25,343	-	25,343	-

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

c) Loss allowance (continued)

Cash and bank balances
Impairment on cash and bank balances measured at amortised cost has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Company uses a similar approach for the assessment of expected credit losses for cash and cash equivalents to those used for debt securities.

On initial application of IFRS 9, the Company recognised an impairment allowance as at 1 January 2018 in the amount of $4.119 million. The amount of the allowance increased by $0.652 million during 2018 to $4.771 million at 31 December 2018.

d) Concentrations of risks of reinsurance and financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The following table breaks down the Company's main credit risk exposure as categorised by the industry sectors of its counterparties.

	2018 **$'000**	**2017** **$'000**
Financial services and corporate	2,053,370	2,635,195
Public sector	3,700,324	3,440,687
Insurance and reinsurance	2,822,921	2,721,880
Other industries	29,651	8,246
	8,606,266	8,806,008

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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.

		Contracted/Expected Undisclosed Cashflows			
	Carrying amount $'000	Less than 1 year $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2018:					
Claims outstanding	4,100,695	758,731	2,837,594	504,370	4,100,695
Due to reinsurers and coinsurers	740,466	740,466	-	-	740,466
Other creditors	134,165	134,165	-	-	134,165
Total financial liabilities (contractual maturity dates)	4,975,326	1,633,362	2,837,594	504,370	4,975,326

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

		Contracted/Expected Undisclosed cashflows			
	Carrying amount $'000	**Less than 1 year $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at 31 December 2017:					
Claims outstanding	4,145,438	1,044,275	2,635,892	465,271	4,145,438
Due to reinsurers and coinsurers	723,899	723,899	-	-	723,899
Other creditors	156,228	156,228	-	-	156,228
Total financial liabilities (contractual maturity dates)	5,025,565	1,924,402	2,635,892	465,271	5,025,565

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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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$'000**	**Impairment J$'000**	**Total J$'000**
At 31 December 2018:				
Financial Assets				
Investments	5,192,723	1,297,354	(5,181)	6,484,896
Due from policyholders, brokers and agents	484,985	750,050	(25,343)	1,209,692
Recoverable from reinsurers	1,047,409	2,736,880	-	3,784,289
Other receivables	28,821	830	-	29,651
Cash and bank	757,931	165,696	(4,771)	918,856
Total financial assets	7,511,869	4,950,810	(35,295)	12,427,384
Financial Liabilities				
Insurance reserves	4,559,887	2,915,848	-	7,475,735
Due to reinsurers and co-insurers	60,787	679,679	-	740,466
Other creditors	134,165	-	-	134,165
Total financial liabilities	4,754,839	3,595,527	-	8,350,366
Net financial position	2,757,030	1,355,283	(35,295)	4,077,018

	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

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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 5% (2017: 4%) 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 2018	Effect on Net Profit 2018 $'000	Effect on Equity 2018 $'000	% Change in Currency Rate 2017	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000
Currency:						
USD – Positive	5%	67,764	-	4%	60,304	-
USD – Negative	5%	(67,764)	-	4%	(60,304)	-

(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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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 2018:							
Financial Assets							
Investments	370,420	22,686	917,182	700,243	2,824,307	1,650,058	6,484,896
Due from policyholders, brokers and agents	-	-	-	-	-	1,209,692	1,209,692
Recoverable from	-	-	-	-	-	3,784,289	3,784,289
Other receivables	-	-	-	-	-	29,651	29,651
Cash and bank	112,097	-	-	-	-	806,759	918,856
Total financial assets	482,517	22,686	917,182	700,243	2,824,307	7,480,449	12,427,384
Financial Liabilities							
Insurance reserves	-	-	-	-	-	4,100,696	4,100,696
Due to reinsurers and coinsurers	-	-	-	-	-	740,466	740,466
Other creditors	-	-	-	-	-	134,165	134,165
Total financial liabilities	-	-	-	-	-	4,975,327	4,975,327
Total interest repricing	482,517	22,686	917,182	700,243	2,824,307	2,505,122	7,452,057

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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 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	93,985	-	-	-	-	628,683	722,668
Total financial assets	1,284,744	28,012	1,086,224	863,629	2,166,259	6,826,825	12,255,693
Financial Liabilities							
Insurance reserves	-	-	-	-	-	4,145,438	4,145,438
Due to reinsurers and coinsurers	-	-	-	-	-	723,899	723,899
Other creditors	-	-	-	-	-	156,228	156,228
Total financial liabilities	-	-	-	-	-	5,025,565	5,025,565
Total interest repricing	1,284,744	28,012	1,086,224	863,629	2,166,259	1,801,260	7,230,128

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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 2018 $'000	Effect on Equity 2018 $'000	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000
Change in basis points:				
-2 % (2017: -2%)	31,614	(412,839)	48,511	(299,282)
+2 % (2017: +2%)	(31,614)	412,839	(48,511)	299,282

(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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

3. Insurance and financial risk management (continued)

(c) Financial risk (continued)

(vi) Interest rate 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 2018 $'000	Effect on Net Profit 2017 $'000	Effect on Equity 2017 $'000
Change in basis points:			
-10 % (2017: -10%)	(162,882)	(58,390)	(58,516)
+10 % (2017: +10%)	162,882	58,390	58,516

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.

	2018		2017	
	Actual	**Minimum Standard**	**Actual**	**Minimum Standard**
MCT	313.14%	250%	308.20%	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 fair value through other comprehensive income 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.

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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

5. 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 and interest receivable) recorded at fair value by level of fair value hierarchy:

Financial assets

	2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total Fair Value $'000**
Investment securities at fair value through profit or loss:				
- Equity securities	1,628,826	21,232	-	1,650,058
Investment securities at fair value through other comprehensive income:				
- Debt securities	-	4,550,239	1,838	4,552,077
	1,628,826	4,571,471	1,838	6,202,135

	2017			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total Fair Value $'000**
Investment securities				
- Equity securities	1,167,228	18,331	1,838	1,187,397
- Debt securities	-	4,088,421	-	4,088,421
	1,167,228	4,106,752	1,838	5,275,818

(Presented in thousands of Jamaican dollars unless otherwise indicated)

5. Fair values of financial instruments (continued)

There were no transfers 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.

For 2017, 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.

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 and which are recorded at fair value.

	Investment securities		
	Equity securities	**Debentures and corporate bonds**	**Total**
	$'000	**$'000**	**$'000**
31 December 2018			
Balance at beginning of year	1,838	-	1,838
Reclassification	(1,838)	1,838	-
Balance at end of year	-	1,838	1,838
31 December 2017			
Balance at beginning of year and Balance at end of year	1,838	-	1,838

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 and19).

(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 2018, the carrying amounts of short-term insurance contracts (claims) was $4.10 billion (2017: $4.14 billion) (Note 15(iv)).

(c) Fair value of financial instruments

The fair value of financial assets that are not traded in an active market is determined by using an internally developed bond valuation model. Assumptions used in this model are validated and periodically reviewed internally by qualified personnel. Where applicable, data is calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions used in valuations could affect reported fair value of financial assets. Key assumptions are based on current market yields. At 31 December 2018, the carrying amount of financial assets that were fair valued using an internally developed bond valuation model was $6.20 billion (2017: $5.27 billion). (Note 3(c)(vii)).

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

Sources of estimation uncertainty (continued)

(c) Fair value of financial instruments (continued)

The following table shows the effect on the profit or loss and fair value reserve to changes in the market yields.

	Effect on fair value reserve 2018		Effect on fair value reserve 2017	
	$'M	$'M	$'M	$'M
Decrease/(increase) in market yields (+ / - 2%)	124.04	124.04	106.66	106.66

(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 25.

Judgements in applying accounting policies

(a) Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(b) Impairment losses on financial assets

Effective 1 January 2018
The measurement of expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

Judgements in applying accounting policies (continued)

(b) Impairment losses on financial assets (continued)

The Company's expected credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit loss models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the expected credit loss models
- Determination of associations between macroeconomic scenarios and, economic inputs and the effect on probabilities of default, exposure at default and loss given default

The Company regularly reviews its internal models in the context of actual loss experience and adjust when necessary.

The carrying amount of impairment provisions on financial assets as at 31 December 2018 was $127.72 million. (Note 3(c)(ii)).

Prior to 1 January 2018
The Company reviewed its asset portfolios to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in the statement of income, the Company made judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the underlying portfolios. The methodology and assumptions used for estimating both the amount and timing of future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of impairment provisions on loans and receivables as at 31 December 2017 was $Nil.

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 2.22).

(c) 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 2.12).

(Presented in thousands of Jamaican dollars unless otherwise indicated)

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:

	2018 $'000	Restated 2017 $'000
Staff costs (Note 9)	482,049	435,046
Computer and data processing	82,605	137,668
Advertising and promotion	33,085	41,239
Depreciation and amortisation	31,510	27,226
Repairs and maintenance	39,882	39,351
Utilities and rent	33,561	33,173
FSC insurance regulation fees and other licence fees	30,062	26,699
Motor vehicle	11,553	11,254
Legal and professional fees	12,133	9,499
Auditor's remuneration	13,632	10,411
Directors' fees (Note 23(c))	10,784	10,730
Asset tax	19,036	16,885
Other	20,324	21,808
	820,216	820,989
Less: Claims related expenses	(205,054)	(205,272)
	615,162	615,717

(Presented in thousands of Jamaican dollars unless otherwise indicated)

9. Staff costs

	2018 $'000	2017 $'000
Wages and salaries	362,428	330,819
Statutory contributions	47,013	37,026
Long-term incentive scheme (Note 23(c))	5,478	4,386
Pension costs - defined contribution scheme (Note 21)	19,803	18,133
Employee benefit obligations (Note 25)	1,100	1,000
Other staff related costs	46,227	43,682
	482,049	435,046

10. a) Investment income

	2018 $'000	2017 $'000
Interest income		
- Fair value through profit or loss investment securities	-	303,278
- Fair value through other comprehensive income investment securities	251,501	-
- Amortised cost investment securities	19,566	-
Dividend income	50,583	33,281
Direct investment expense	(11,796)	(8,218)
	309,854	328,341

b) Net fair value gains

	2018 $'000	2017 $'000
Realised fair value gains on fair value through profit or loss investment securities	2,671	58,301
Unrealised fair value gains on fair value through profit or loss investment securities	173,820	311,705
	176,491	370,006

c) Net impairment reversal (losses) on financial assets

	2018 $'000	2017 $'000
Investment securities at fair value through other comprehensive income (Note 26(a))	24,837	-
Investment securities measured at amortised cost	29,947	-
Loans and receivables	(6,551)	-
Cash and bank	(652)	-
	47,581	-

(Presented in thousands of Jamaican dollars unless otherwise indicated)

11. Taxation

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

	2018 **$'000**	**2017** **$'000**
Current income tax	221,179	122,774
Deferred income tax (Note 19)	89,214	91,413
	310,393	214,187

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

	2018 **$'000**	**2017** **$'000**
Profit before taxation	975,399	695,769
Tax calculated at a rate of 33 1/3%	325,133	231,923
Adjusted for effects of:		
Income not subject to tax	(40,156)	(17,074)
Expenses not deductible for tax	13,453	6,098
Other	11,963	(6,760)
Income tax expense	310,393	214,187

(Presented in thousands of Jamaican dollars unless otherwise indicated)

12. Property and equipment

	Computer Equipment	Furniture and Fixtures	Motor Vehicles	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000	$'000
At Cost:					
At 31 December 2016	124,036	43,839	74,386	45,319	287,580
Additions	8,584	458	9,621	-	18,663
Disposals	-	(1,637)	(13,239)	-	(14,876)
At 31 December 2017	132,620	42,660	70,768	45,319	291,367
Additions	14,687	1,018	39,712	-	55,417
Disposals	-	-	(24,514)	-	(24,514)
At 31 December 2018	147,307	43,678	85,966	45,319	322,270
Accumulated Depreciation:					
At 31 December 2016	116,236	28,813	43,023	11,144	199,216
Charge for the year	5,519	3,441	13,734	4,532	27,226
Disposals	-	(1,637)	(11,925)	-	(13,562)
At 31 December 2017	121,755	30,617	44,832	15,676	212,880
Charge for the year	9,469	3,271	14,238	4,532	31,510
Disposals	-	-	(17,203)	-	(17,203)
As at December 31, 2018	131,224	33,888	41,867	20,208	227,187
Net Book Value:					
At 31 December 2018	16,083	9,790	44,099	25,111	95,083
At 31 December 2017	10,865	12,043	25,936	29,643	78,487

(Presented in thousands of Jamaican dollars unless otherwise indicated)

13. Investments

These comprise investments primarily in government securities as follows:

	2018			
	Fair Value through Other omprehensive Income $'000	**Fair Value through Profit & Loss $'000**	**Amortised cost $'000**	**Total $'000**
Financial assets				
Government of Jamaica ("GOJ") securities	3,641,389	-	-	3,641,389
Equity securities - Quoted	-	1,628,826	-	1,628,826
Other:				
Deposits (more than 90 days)	623,035	-	-	623,035
Reverse repurchase agreements	-	-	217,397	217,397
Corporate bonds	287,653	-	-	287,653
Mutual funds	-	21,232	-	21,232
	910,688	21,232	217,397	1,149,317
Accrued interest	70,214	-	331	70,545
Impairment	-	-	(5,181)	(5,181)
Total	4,622,291	1,650,058	212,547	6,484,896

Classified as:	
Current	2,960,346
Non-current	3,524,550
	6,484,896

(Presented in thousands of Jamaican dollars unless otherwise indicated)

13. Investments (continued)

	2017		
	Available for Sale $'000	**Fair Value Through Profit or Loss $'000**	**Total $'000**
Financial assets			
Government of Jamaica ("GOJ") securities	102,704	3,529,775	3,632,479
Equity securities:			
Quoted	583,325	583,903	1,167,228
Unquoted	1,838	-	1,838
	585,163	583,903	1,169,066
Other			
Deposits (more than 90 days)	-	59,811	59,811
Reverse repurchase agreements	-	1,185,255	1,185,255
Corporate bonds	-	396,131	396,131
Mutual funds	18,331	-	18,331
	18,331	1,641,197	1,659,528
Accrued interest	1,857	59,350	61,207
Total	708,055	5,814,225	6,522,280
Classified as:			
Current			3,492,392
Non-current			3,029,888
			6,522,280

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 $217,397,000 (2017 – $1,185,255,000).

Interest rates on the debt securities ranged from 1% to 11.875% (2017: 1% to 11.875%) per annum.

The Financial Services Commission ("FSC") holds GOJ securities valued at $45,000,000 (2017 – $45,000,000) for the Company as security, in accordance with Section 8(1) (B) of the Insurance Regulations 2001.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

14. Deferred policy acquisition costs

These are comprised as follows:

	2018 $'000	2017 $'000
Deferred commissions (Note 15(v))	257,176	230,016

15. Insurance liabilities and reinsurance assets

These reserves are as follows:

Short-term insurance contracts

(i) Gross insurance liabilities

	2018 $'000	2017 $'000
Unearned premiums	3,148,177	3,245,935
Claims outstanding	4,100,695	4,145,438
Unearned commissions	226,863	198,323
Total insurance liabilities, gross	7,475,735	7,589,696

(ii) Recoverable from reinsurers

	2018 $'000	2017 $'000
Unearned premiums	2,171,060	2,280,619
Claims outstanding	1,613,229	1,500,720
Total reinsurers' share of the insurance liabilities	3,784,289	3,781,339

(iii) Provision for unearned premiums

	2018 $'000	2017 $'000
Gross unearned premiums	3,148,177	3,245,935
Recoverable from reinsurers	(2,171,060)	(2,280,619)
Net unearned premiums at end of year	977,117	965,316

(iv) Provision for claims outstanding

	2018 $'000	2017 $'000
Gross claims outstanding	4,100,695	4,145,438
Recoverable from coinsurers and reinsurers	(1,613,229)	(1,500,720)
Net claims outstanding at end of year	2,487,466	2,644,718

(Presented in thousands of Jamaican dollars unless otherwise indicated)

15. Insurance liabilities and reinsurance assets (continued)

(v) Deferred policy acquisition costs

	2018	2017
	$'000	$'000
Deferred commissions (Note 14)	257,176	230,016
Unearned commissions	(226,863)	(198,323)
Net deferred policy acquisition costs	30,313	31,693

16. Other receivables

	2018 $'000	2017 $'000
Staff loans and advances	68	509
Prepayments	12,797	7,829
Sundry receivables	28,753	7,737
Due to related parties (Note 23(b))	830	-
	42,448	16,075

17. Cash and bank

	2018 $'000	2017 $'000
Cash and bank balances – J$	757,931	573,660
Cash and bank balances – US$	165,696	149,008
	923,627	722,668
Impairment	(4,771)	-
Cash and bank balances	918,856	722,668

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

	2018 %	2017 %
Cash at bank		
- J$	0.25 – 0.35	0.25 – 0.40
- US$	0.10 – 0.30	0.10

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

(Presented in thousands of Jamaican dollars unless otherwise indicated)

18. Share capital and other capital reserves

(a) Share capital:

	2018 No. of Shares ('000)	2017 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:

	2018 $'000	2017 $'000
Capital redemption reserve (i)	213,000	213,000
Capital reserves (ii)	167	167
	213,167	213,167

(i) Capital redemption reserve

	2018 $'000	2017 $'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.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

18. Share capital and other capital reserves (continued)

(b) Other capital reserves:

(i) Capital reserves

	2018 $'000	2017 $'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% (2017: 4%)

19. 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:

	2018 $'000	Restated 2017 $'000
Net liabilities at beginning of year	(303,825)	(161,155)
Impact of initial application of IFRS 9 (Note 27)	12,067	-
Deferred tax charged to income tax expense (Note 11)	(89,214)	(91,413)
Deferred tax charged to other comprehensive income	(62,035)	(51,257)
Net liabilities at end of year	(443,007)	(303,825)

(Presented in thousands of Jamaican dollars unless otherwise indicated)

19. Deferred tax liabilities, net (continued)

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

	Employee Benefit Obligation and Accrued Vacation	Depreciation in excess of capital allowance	Total
	$'000	$'000	$'000
Deferred tax assets			
At 31 December 2016	5,554	-	5,554
Credited to other comprehensive income (Note 25)	1,000	-	1,000
Credited to income tax expense	281	-	281
At 31 December 2017	6,835	-	6,835
Credited to other comprehensive income (Note 25)	1,333	-	1,333
(Charged) Credited to income tax expense	(3,959)	89	(3,870)
At 31 December 2018	4,209	89	4,298

	Accelerated Tax Depreciation	Foreign Exchange Gains	Accrued Interest & Fair Value Gains	Total
	$'000	$'000	$'000	$'000
Deferred tax liabilities				
At 31 December 2016	1,916	14,327	150,466	166,709
Charged to other comprehensive income (Note 26)	-	-	52,257	52,257
(Credited) Charged to income tax expense	(1,483)	(10,083)	103,260	91,694
At 1 January 2018, as previously stated	433	4,244	305,983	310,660
Impact of initial application of IFRS 9 (Note 27)	-	-	(12,067)	(12,067)
At 1 January 2018, restated	433	4,244	293,916	298,593
Charged to other comprehensive income (Note 26)	-	-	63,368	63,368
(Credited) Charged to income tax expense	(433)	9,994	75,783	85,344
At 31 December 2018	-	14,238	433,067	447,305

	2018	2017
	$'000	$'000
Deferred tax assets	4,298	6,835
Deferred tax liabilities	(447,305)	(310,660)
Net deferred tax liabilities	(443,007)	(303,825)

(Presented in thousands of Jamaican dollars unless otherwise indicated)

20. Other creditors

	2018 $'000	2017 $'000
Staff bonus and gratuity	109,672	79,831
General consumption tax and premium tax	38,198	118,943
Professional fees	13,484	10,685
Regulatory fees	7,461	6,610
Due to related parties (Note 23(b))	1,372	50,980
Other	2,176	8,122
	172,363	275,171

21. 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 $19,803,000 (2017 – $18,133,000) have been charged to the statement of comprehensive income (Note 9).

22. Commitments

Operating leases

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

	2018 $'000	2017 $'000
Within one year	18,497	16,580
After one year but not more than five years	20,606	33,160
	39,103	49,740

(Presented in thousands of Jamaican dollars unless otherwise indicated)

23. 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:

		2018 $'000	2017 $'000
(i)	**Sale of insurance contracts**		
	Fellow subsidiaries:		
	Guardian Life Limited	31,033	26,814
	Guardian Resorts Jamaica Limited	61,607	57,730
		92,640	84,544
(ii)	**Other expenses**		
	Ultimate parent:		
	Guardian Holdings Limited	-	1,352
	Fellow subsidiaries:		
	Guardian General Limited	1,476	18
	Guardian Life Limited	24,897	21,294
	Guardian Shared Services Limited	62,070	118,330
		88,443	140,994

(Presented in thousands of Jamaican dollars unless otherwise indicated)

23. Related party transactions and balances (continued)

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

	2018 $'000	2017 $'000
Fellow subsidiaries:		
Guardian Holdings Limited	1,353	-
Guardian General Insurance Limited	19	18
Guardian General St. Lucia Holding Limited	-	2
Guardian Life Limited	-	41,244
Guardian Shared Services Limited	(830)	9,716
	542	50,980
Classified as:		
Due to related parties (Note 21)	1,372	50,980
Due from related party (Note 16)	(830)	-
	542	50,980

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

(c) Key management compensation

	2018 $'000	2017 $'000
Salaries and other short-term employee benefits	85,485	94,912
Long-term incentive plan (Note 9)	5,478	4,386
Statutory contributions	5,308	6,697
Pension benefits	4,012	4,057
	100,283	110,052
Directors' emoluments –		
Fees (Note 8)	10,784	10,730

24. Dividends paid

During the year, the Company declared and subsequently made a dividend payment of $570,000,000 (2017 – $415,000,000) to its parent company. The dividend per share is calculated as $1.23 (2017 – $0.90).

(Presented in thousands of Jamaican dollars unless otherwise indicated)

25. Employee benefit obligation

Post-retirement medical benefits

	2018 $'000	Restated 2017 $'000
Present value of obligation	18,500	14,300
Net liability in statement of financial position	18,500	14,300
The amounts recognised in the statement of comprehensive income are as follows:		
Interest on obligation	1,100	1,000
Net cost for year recognised in the statement of comprehensive income (Note 9)	1,100	1,000
Items in Other Comprehensive Income (OCI):		
Re-measurement loss of employee benefit obligation, gross	4,000	3,000
Net cost from statement of comprehensive income	5,100	4,000
Re-measurement of employee benefit obligation, gross	4,000	3,000
Deferred income tax (Note 19)	(1,333)	(1,000)
Re-measurement of employee benefit, net of tax	2,667	2,000
Movements in the net liability recognised in the statement of financial position are as follows:		
Net liability at start of year	14,300	11,100
Net cost from statement of comprehensive income	5,100	4,000
Contributions by employer	(900)	(800)
	18,500	14,300
Principal actuarial assumptions at the statement of financial position date:		
Discount rate at end of year (pa)	7%	8%
Rate of increase in medical claims cost/premiums (pa)	6%	8%

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

(Presented in thousands of Jamaican dollars unless otherwise indicated)

26. Revaluation reserves

This comprises the investment revaluation reserve.

	Fair value reserve $'000
Balance 1 January 2018 – as previously stated	396,675
Impact of initial application of IFRS 9 (Note 27)	(24,134)
Balance at 1 January 2018 - restated	372,541
Credit to other comprehensive income (Note 26(a))	101,898
Balance 31 December 2018	474,439
Balance 1 January 2017	292,160
Credit to other comprehensive income (Note 26(a))	104,515
Balance 31 December 2017	396,675

a) The movement in other comprehensive income is as follows:

	2018 $'000	2017 $'000
Fair value gains on fair value through other comprehensive income securities	190,104	156,772
Effect on taxes on fair value gains and impairment (Note 19)	(63,368)	(52,257)
	126,736	104,515
Impairment losses reversed during the year (Note 10(c))	(24,837)	-
	101,898	104,515

(Presented in thousands of Jamaican dollars unless otherwise indicated)

27. Impact of Restatements

a) Reconciliation of Equity

	Audited 31-Dec-17 $'000	IAS 19 restatement (Note (i)) 31-Dec-17 $'000	Audited 1-Jan-18 $'000	IFRS 9 initial application: Reclassifications (Note (ii)) 1-Jan-18 $'000	IFRS 9 initial application: Restatements (Note (ii)) 1-Jan-18 $'000	Restated 1-Jan-18 $'000
Assets						
Investment securities						
- Fair value through profit and loss	5,814,225	-	5,814,225	(4,628,665)	-	1,185,560
- Amortised cost	-	-	-	1,189,474	(35,128)	1,154,346
- Fair value through other comprehensive income	-	-	-	4,147,246	-	4,147,246
- Available for sale	708,055	-	708,055	(708,055)	-	-
Loans and receivables	1,237,235	-	1,237,235	-	(18,792)	1,218,443
Cash and bank balances	722,668	-	722,668	-	(4,119)	718,549
Other assets	4,089,842	-	4,089,842	-		4,089,842
Total assets	12,572,025	-	12,572,025	-	(58,039)	12,513,986
Equity						
Share capital	1,138,500	-	1,138,500	-	-	1,138,500
Other capital reserves	213,167	-	213,167	-	-	213,167
Revaluation reserve	396,675	-	396,675	-	(24,134)	372,541
Retained earnings	1,876,665	(1,367)	1,875,298	-	(21,838)	1,853,460
Total equity	3,625,007	(1,367)	3,623,640	-	(45,972)	3,577,668
Liabilities						
Deferred tax liabilities	304,558	(733)	303,825	-	(12,067)	291,758
Employee benefit obligation	12,200	2,100	14,300	-	-	14,300
Other liabilities	8,630,260	-	8,630,260	-	–	8,630,260
Total liabilities	8,947,018	1,367	8,948,385	-	(12,067)	8,936,318
Total equity and liabilities	12,572,025	-	12,572,025	-	(58,039)	12,513,986

(Presented in thousands of Jamaican dollars unless otherwise indicated)

27. Impact of Restatements (Continued)

a) Reconciliation of Equity (continued)

	Fair Value Reserve $'000	Retained Earnings $'000
Audited opening balance - 1 January 2018 - IAS 39	396,675	1,875,298
Reclassification adjustments (before taxation):		
-From FVPL to FVOCI	236,970	(236,970)
-From FVOCI to FVTPL	(390,436)	390,436
Expected credit losses adjustments (before taxation):		
-Increase in provision for financial assets at AC	-	(58,039)
-Increase in provision for financial assets at FVOCI	117,265	(117,265)
Taxation adjustments	12,067	-
Restated opening balance - 1 January 2018 - IFRS 9	372,541	1,853,460

The net impact of these IFRS 9 adjustments at the date of application (1 January 2018) is a reduction in equity of $45.972 million as presented in the statement of changes in equity.

(Presented in thousands of Jamaican dollars unless otherwise indicated)

27. Impact of Restatements

b) Reconciliation of statement of comprehensive income

	2017 $'000	IAS 19 restatement (Note (i)) $'000	Restated 2017 $'000
Gross premiums written	7,471,035	-	7,471,035
Outward reinsurance premiums	(5,538,432)	-	(5,538,432)
Premiums written, net of reinsurance	1,932,603	-	1,932,603
Change in provision for unearned premiums	(143,877)	-	(143,877)
Premiums earned, net of reinsurance	1,788,726	-	1,788,726
Claims incurred, net of reinsurance	(1,210,758)	-	(1,210,758)
Commissions earned	563,658	-	563,658
Commissions paid	(535,155)	-	(535,155)
Change in net deferred policy acquisition costs	26,551	-	26,551
Administrative expenses	(615,817)	100	(615,717)
Underwriting profit	17,205	100	17,305
Investment income	698,347	-	698,347
Other income	5,733	-	5,733
Foreign exchange (losses) gains	(25,616)	-	(25,616)
Profit before taxation	695,669	100	695,769
Taxation	(214,187)	-	(214,187)
Net profit attributable to owners of the parent	481,482	100	481,582
Other comprehensive income:			
Amount not to be reclassified to profit or loss in future periods:			
Re-measurement of employee benefit obligation, net of taxes	(533)	(1,467)	(2,000)
Amount to be reclassified to profit or loss in future periods:			
Investment fair value gain, net of taxes	104,515	-	104,515
Total other comprehensive income	103,982	(1,467)	102,515
Total comprehensive income attributable to owners of the parent	585,464	(1,367)	584,097

Notes

i) Adjustments resulting from accounting for General Consumption Tax (GCT)) for employee retirement obligation.

ii) The Company adopted IFRS 9 with an initial application date of 1 January 2018, which resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. As permitted by the transitional provisions of IFRS 9, the Company did not restate comparative amounts. The cumulative retrospective impact of applying the new requirements has been reflected in the Company's opening statement of financial position as at 1 January 2018, as shown at (a) above. Also, for notes disclosures, the consequential amendments to IFRS 7 Financial instruments: Disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.