25th JIIC Anniversary 1981-2006

Your insurance place from GraceKennedy

# 2006
# Financial Results

# VISION

**To be the insurer of choice in the markets we serve.**

# MISSION STATEMENT

**"A financially strong general insurance company,
that provides distinctive customer solutions by
building relationships
operating efficiently, and
managing risks appropriately
with well trained and motivated staff".**

## BOARD OF DIRECTORS

Peter Moss-Solomon - Chairman
Andrew Levy - Managing
A. Rafael Diaz
Douglas Orane
Don Wehby
Dwight Richardson
Joe Taffe
Mark Golding
Monica Ladd
Paul Mitchell
Terrence Jarrett
Michelle Wong - Corporate Secretary

## MANAGEMENT TEAM

| | |
|---|---|
| Andrew Levy | Managing Director |
| Paul Mitchell | Finance Director |
| Leona Remekie | Claims Manager |
| Christopher Hamilton | Accounts Manager |
| Byron Leslie | Risk & Reinsurance Manager |
| Winsome Gibbs | Business Development Manager |

**JIIC "Driven by Excellence – Guided by Experience"**

# MD's Report 2006

The celebration of our 25th Anniversary in 2006 is indeed a significant accomplishment.
Like any person at this stage of our life we are growing steadily and continue to make our mark in the local insurance industry and wherever we set our sights. This we've been able to accomplish through the dedication and commitment of our team members.

As we pursue our vision **'To be the Insurer of Choice'** we remain resolute in our drive to deliver superior customer service, invest in our people, increase operational efficiency and remain involved in various industry associations in order to grow our business.
2006 was not without its challenges but the celebration of our 25th Anniversary brought much excitement. Contrary to the predictions that it would have been a hectic hurricane season, it was a relatively quiet year for us. Our motor business came under pressure with the increasing incidences of theft of motor vehicles particularly higher value vehicles. Nonetheless we managed to have a successful year, operating in full accordance with our Balanced Scorecard (BSC) strategy where we measure performance at the organizational, departmental and individual levels in four dimensions. Under this new strategy our team members can see the direct impact of their individual contribution on corporate objectives and are motivated and driven to strive for excellence.
Our BSC strategy and results are as follows:

*1. Learning and Growth Perspective*
Everything that we do hinges on a well-trained and motivated team. This we achieve by focusing on:

- Creating a learning environment which attracts, develop, recognize and retain great people.
- We are involved in our community and with the support of our staff have been working with the Christian Boys home to improve the standard of living of the children in that residence. In addition, we support various community-based initiatives put on by schools, churches and other social / charitable organizations. We will continue to explore and develop such initiatives, where our customers and staff can feel our presence in the community.

*2. Internal Process Perspective*
We strive to build relationships and operate excellently while managing risk appropriately by:

- Attracting and maintaining profitable relationships with our brokers, agents and reinsurers.
- Innovative use of technology to better serve our clients and achieve our business goals. We are still exploring the use of EDI with select brokers to make our business transactions more efficient and effective.
- Consistent assessment and analysis of our risk portfolio
- Adhering to our corporate governance policies

*3. Customer Perspective*

Providing distinctive customer solutions is our goal and this we strive for by:

- Introducing and extending value-added new products and benefits. We re-branded our home cover policy to be *Premier Home Cover,* conveniently packaged and easy for the customer to understand.
- Exceeding customer expectations where we focus on offering the best value with on-time, error free service. We constantly assess ourselves by periodically surveying clients served by our customer service and claims departments. Our customer satisfaction index is within 96 -99%, this is a significant foundation element of our strategy.
- Building the brand via a number of marketing initiatives intended to increase the general awareness of JIIC as a company and as a member of the GraceKennedy group.
- We now have a network of four branches - Knutsford Boulevard; Liguanea, Montego Bay and Mandeville with our sights set on Portmore in the coming year.
- We continue to invest in the training and retraining of our team in order to ensure that our customers experience superb customer service.

*4. Financial Perspective*

Our focus included:

- improving our combined ratios;
- providing an acceptable return on equity;
- maintaining our gross premium;
- using enterprise risk management to focus organizational activities.
- improving our A.M. Best rating.

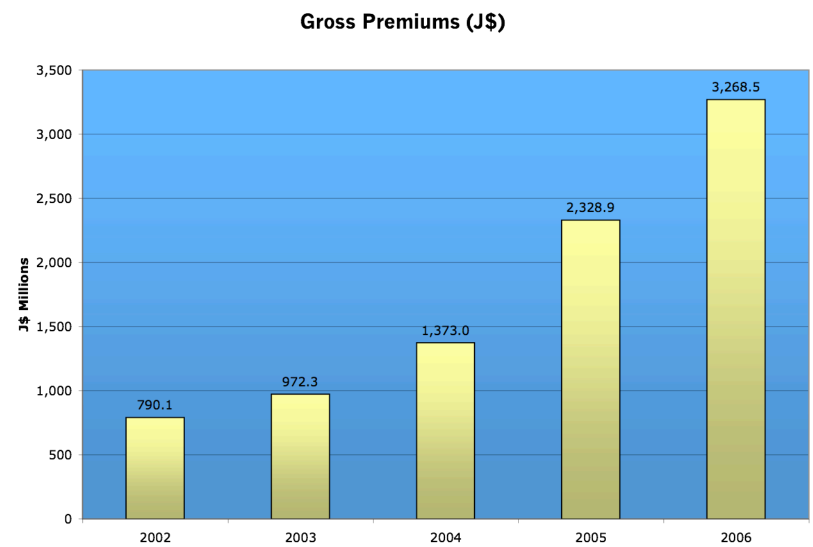
Our partnership in Turks & Caicos continues to exceed our growth expectations and we are very satisfied with the relationship with our local agent.

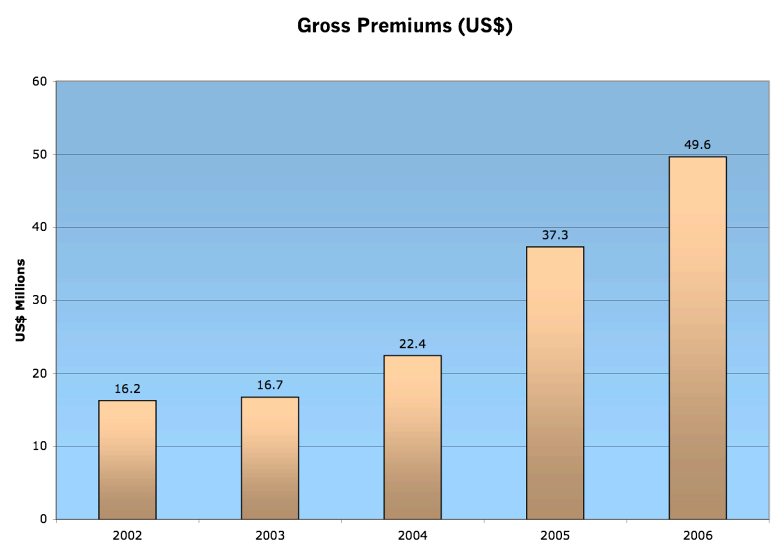
We are pleased to present our results for the year ended December 31, 2006.

# Financial Highlights

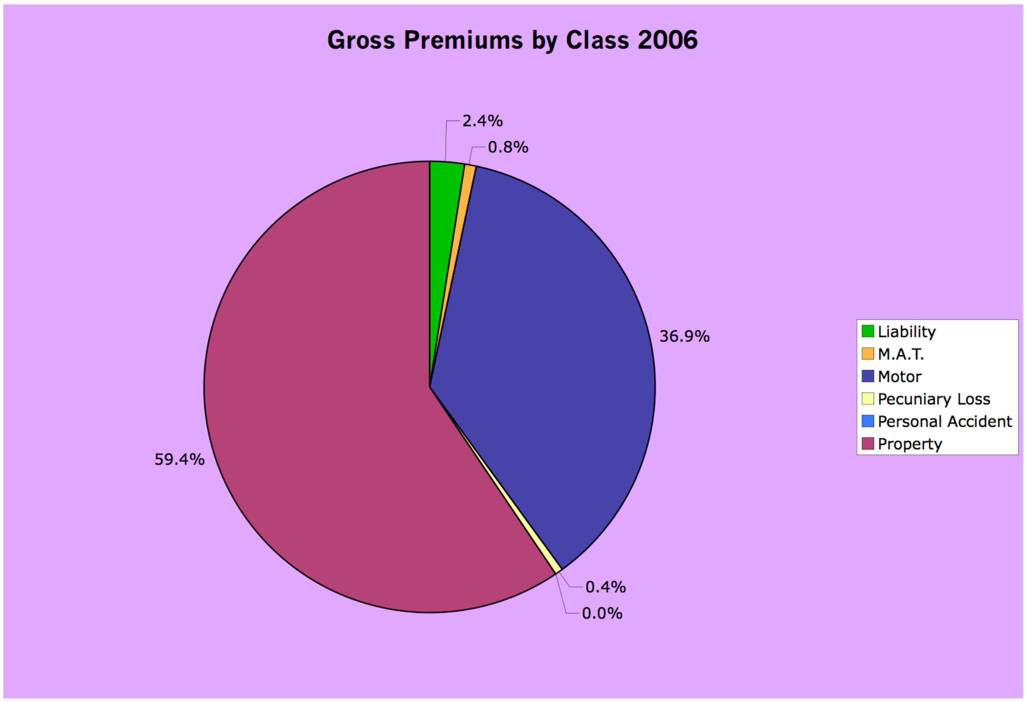
## Results for the year ended December 31, 2006:

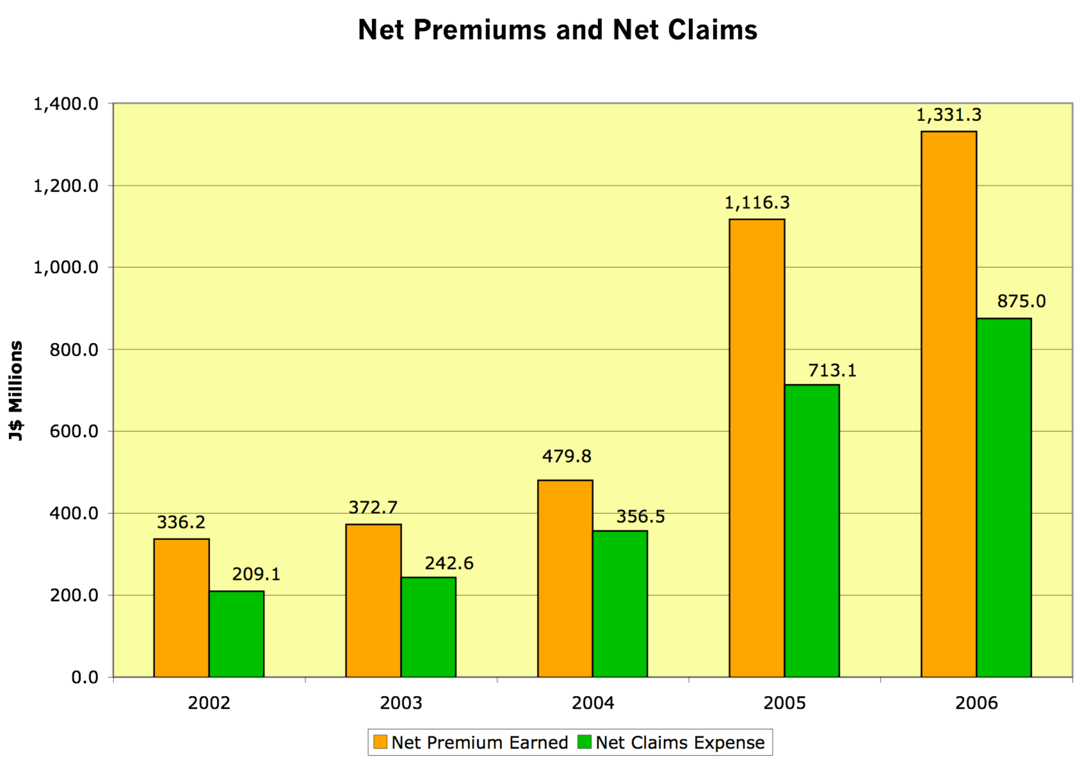
| | |
|---|---|
| Gross Premiums of $3,268 million | 2005: $2,329 million; |
| Net Premium Earned of $1,331 million | 2005: $1,116 million; |
| Claims Paid & Provided of $875 million | 2005: $713.1 million; |
| Underwriting Result of ($13.8 million) | 2005: $14.2 million; |
| Net Loss Ratio was 65.7% | 2005: 63.9% |



# Financial Highlights



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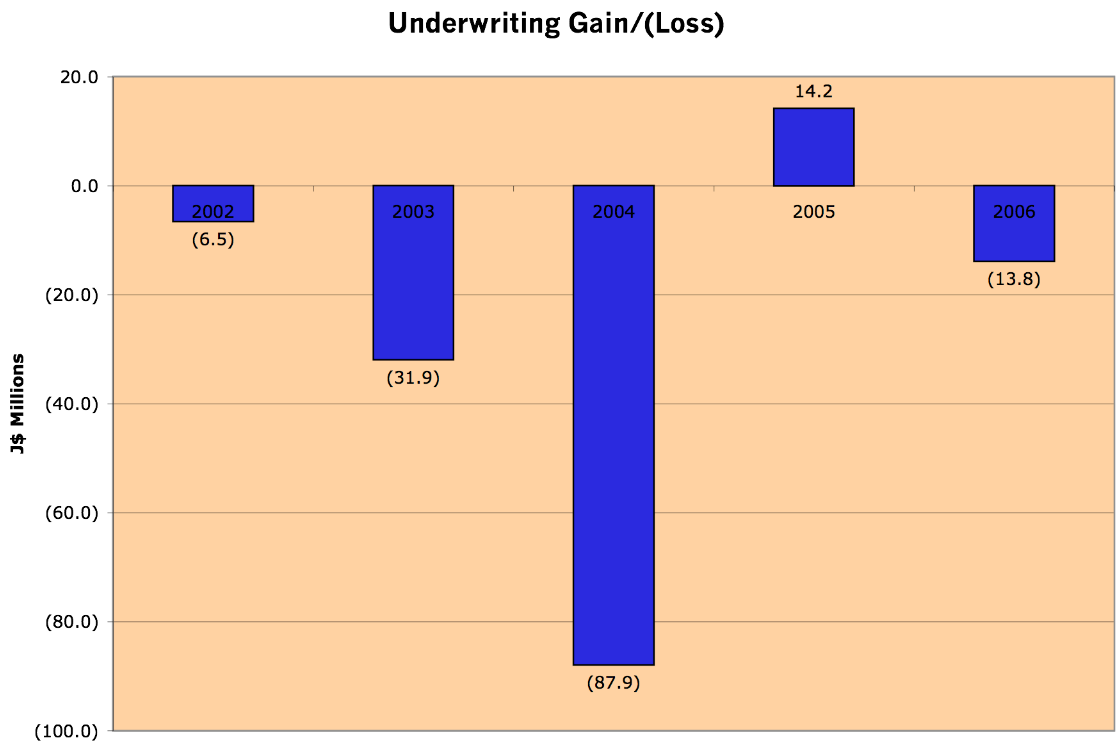


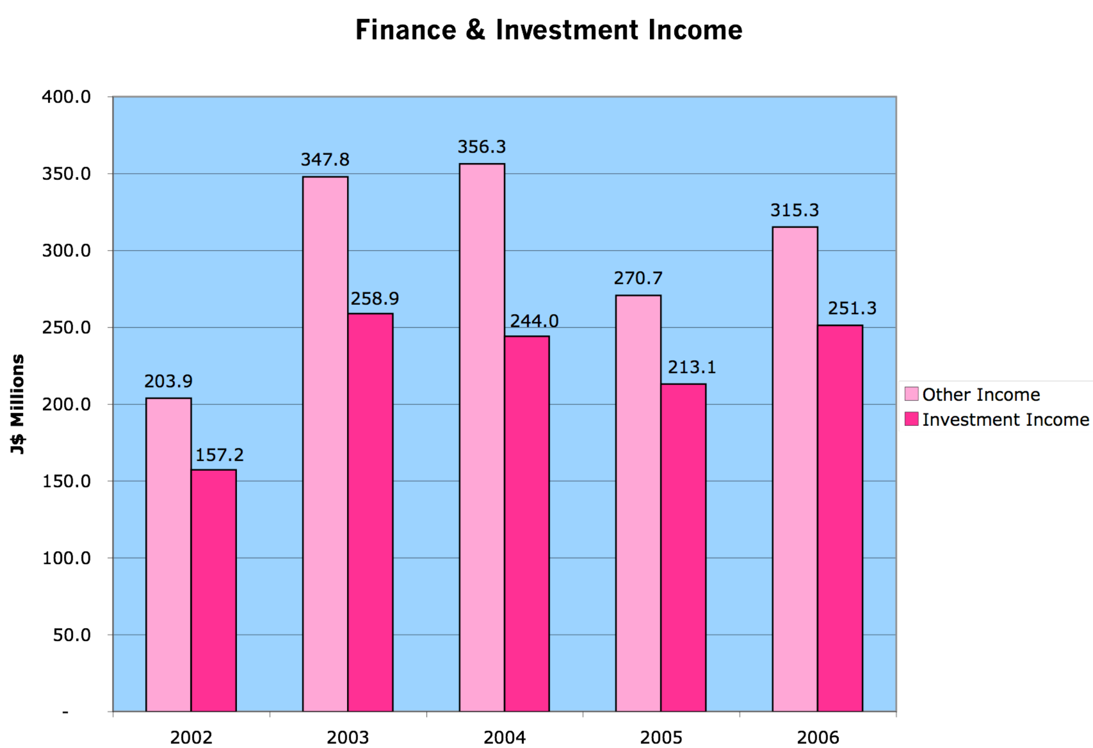

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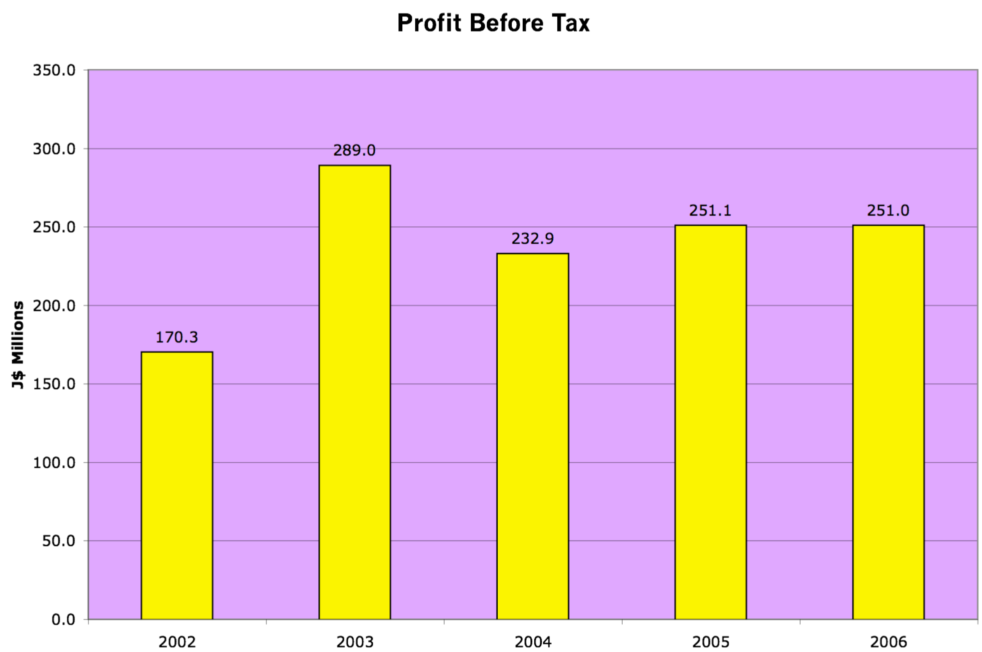
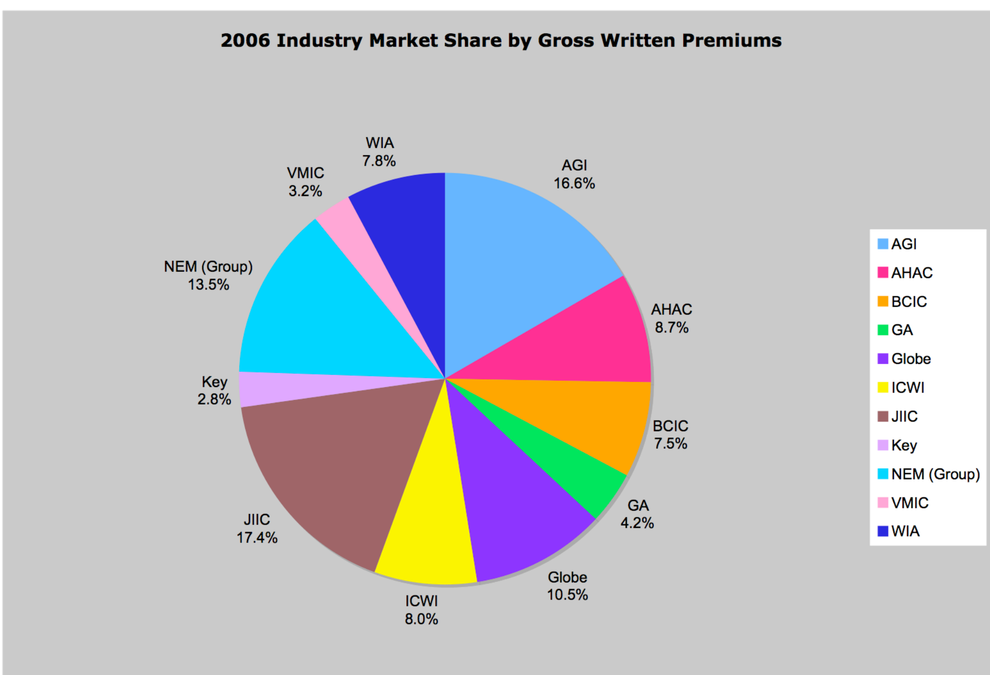
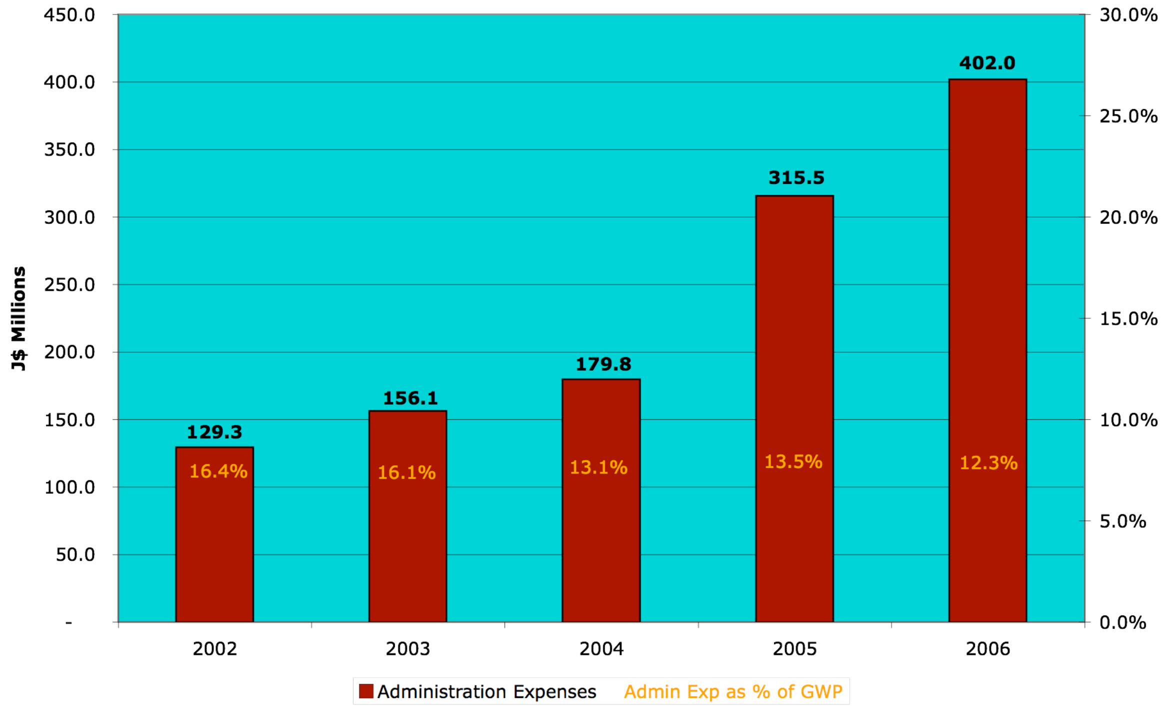
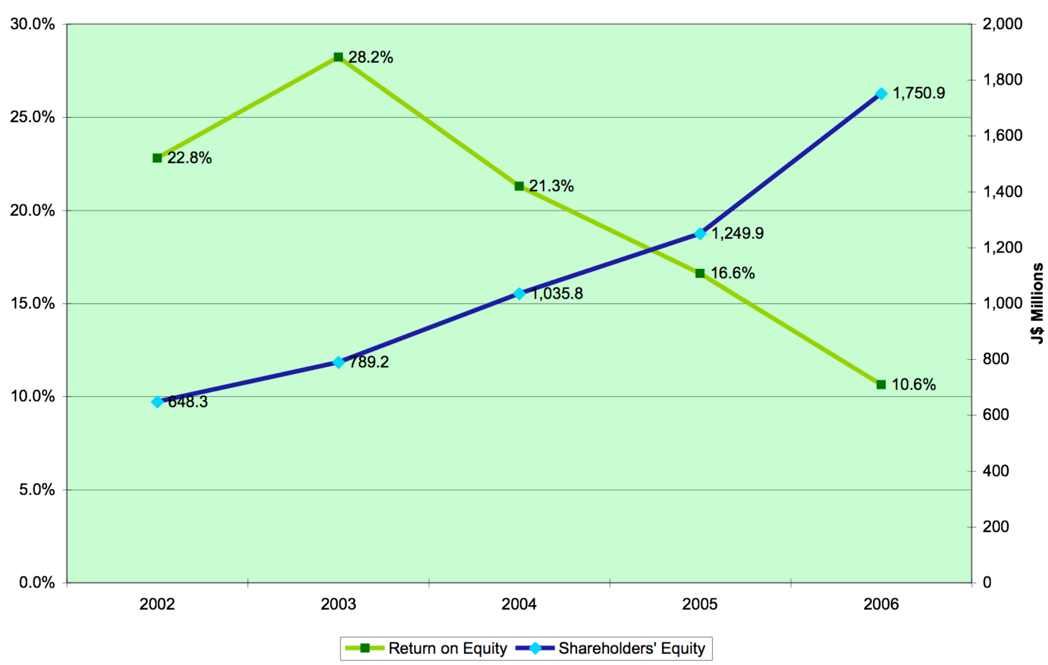


# Financial Highlights



# Jamaica International Insurance Company Limited

**Financial Statements**
**31 December 2006**

# Jamaica International Insurance Company Limited

**Supplementary Information**
**31 December 2006**

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**Supplementary Information**

## Independent Auditors' Report

To the Members of
Jamaica International Insurance Company Limited

### Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica International Insurance Company Limited, set out on pages 1 to 31, which comprise the balance sheet as of 31 December 2006 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Other Legal and Regulatory Requirements**

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

Chartered Accountants

26 March 2007
Kingston, Jamaica

# Jamaica International Insurance Company Limited

Balance Sheet

**31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash and Short Term Investments** | 6 | 1,853,004 | 1,196,193 |
| **Investments** | 7 | 680,602 | 689,131 |
| **Due from Agents, Brokers and Policyholders** | 8 | 255,785 | 340,161 |
| **Recoverable from Reinsurers** | 13 | 897,877 | 1,087,155 |
| **Deferred Policy Acquisition Costs** | | 92,134 | 92,500 |
| **Taxation Recoverable** | | - | 3,725 |
| **Other Receivables** | 9 | 12,150 | 8,516 |
| **Due to Parent Company** | | 33 | - |
| **Fixed Assets** | 10 | 275,379 | 232,536 |
| **Retirement Benefit Asset** | 11 | 95,705 | 77,440 |
| **Intangible Asset** | 12 | 549,816 | 589,088 |
| | | 4,712,485 | 4,316,445 |

# Jamaica International Insurance Company Limited

Balance Sheet

**31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | Note | 2006 $'000 | 2005 $'000 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Due to Reinsurers** | | 305,304 | 298,311 |
| **Insurance Reserves** | 13 | 2,422,282 | 2,502,508 |
| **Other Payables** | 14 | 61,440 | 55,585 |
| **Taxation Payable** | | 31,517 | - |
| **Deferred Tax Liabilities** | 15 | 79,684 | 53,884 |
| **Due to Parent Company** | | - | 125 |
| **Borrowings** | 16 | 5,539 | 109,801 |
| **Retirement Benefit Obligations** | 11 | 55,801 | 46,235 |
| | | 2,961,567 | 3,066,449 |
| **Shareholders' Equity** | | | |
| Share capital | 17 | 1,065,076 | 265,064 |
| Capital and fair value reserves | 18 | 174,041 | 116,492 |
| Retained earnings | | 511,801 | 868,440 |
| | | 1,750,918 | 1,249,996 |
| | | 4,712,485 | 4,316,445 |

**Approved for issue by the Board of Directors on 26 March 2007 and signed on its behalf by:**

Peter Moss-Solomon Chairman

Andrew C. H. Levy Managing Director

# Jamaica International Insurance Company Limited

Profit and Loss Account

**Year ended 31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | Note | 2006<br>$'000 | 2005<br>$'000 |
|---|---|---|---|
| **Gross Premiums Written** | | 3,268,491 | 2,328,903 |
| Reinsurance ceded | | (1,989,991) | (1,224,140) |
| Net premium income | | 1,278,500 | 1,104,763 |
| Unearned premium reserve | | 52,817 | 11,628 |
| **Net Premiums Earned** | | 1,331,317 | 1,116,391 |
| Commission income | | 170,305 | 113,172 |
| Commission expense | | (219,248) | (172,208) |
| Claims expense | | (875,035) | (713,147) |
| Underwriting expenses | | (19,224) | (14,416) |
| Administration expenses | | (401,959) | (315,580) |
| **Underwriting (Loss)/Profit** | | (13,844) | 14,212 |
| Other income | 19 | 315,307 | 270,780 |
| Other operating expenses | | (50,147) | (25,047) |
| Finance costs | 20 | ( 332) | (8,833) |
| **Profit before Taxation** | | 250,984 | 251,112 |
| Taxation | 23 | (91,435) | (61,896) |
| **NET PROFIT** | | 159,549 | 189,216 |

# Jamaica International Insurance Company Limited

Statement of Changes in Equity

**Year ended 31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | Note | Number of Shares | Share Capital | Capital and Fair Value Reserves | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | | '000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 January 2005 | | 265,064 | 265,064 | 91,556 | 679,224 | 1,035,844 |
| Net income recognised directly in equity | | | | | | |
| Disposal of available-for-sale investments | | - | - | (8,725) | - | (8,725) |
| Fair value gains - | | | | | | |
| Available-for-sale investments | | - | - | 33,661 | - | 33,661 |
| | | - | - | 24,936 | - | 24,936 |
| Net profit | | - | - | - | 189,216 | 189,216 |
| Total recognised income for the year | | - | - | 24,936 | 189,216 | 214,152 |
| **Balance at 31 December 2005** | | 265,064 | 265,064 | 116,492 | 868,440 | 1,249,996 |
| Net income recognised directly in equity | | | | | | |
| Fair value gains - | | | | | | |
| Fixed assets | | - | - | 35,408 | - | 35,408 |
| Available-for-sale investments | | - | - | 22,141 | - | 22,141 |
| | | - | - | 57,549 | - | 57,549 |
| Net profit | | - | - | - | 159,549 | 159,549 |
| Total recognised income for the year | | - | - | 57,549 | 159,549 | 217,098 |
| Issue of ordinary shares | 17 | 97,000 | 97,000 | - | - | 97,000 |
| Issue of preference shares | 17 | 3,130 | 203,012 | - | - | 203,012 |
| Issue of bonus ordinary shares | 17 | 500,000 | 500,000 | - | (500,000) | - |
| Dividends on preference shares | | - | - | - | (16,188) | (16,188) |
| **Balance at 31 December 2006** | | 865,194 | 1,065,076 | 174,041 | 511,801 | 1,750,918 |

# Jamaica International Insurance Company Limited

Statement of Cash Flows

**Year ended 31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Gross premiums received | 3,352,867 | 2,228,645 |
| Reinsurance paid | (1,982,998) | (1,142,278) |
| Purchase of policies | - | (119,072) |
| Commissions received | 173,361 | 140,762 |
| Commissions paid | (218,882) | (194,640) |
| Claims paid | (716,492) | (515,073) |
| Interest received | 274,241 | 208,796 |
| Interest paid | (332) | (8,833) |
| Rent received | 14,476 | 24,687 |
| Other receipts | 19,817 | 9,025 |
| Underwriting, administration and other operating expenditure | (429,140) | (320,397) |
| Taxation paid | (46,491) | (51,333) |
| Cash provided by operating activities | 440,697 | 260,289 |
| **Cash Flows from Financing Activities** | | |
| Long term loan repaid | (97,645) | - |
| Finance lease payments | (387) | (831) |
| Issue of ordinary shares | 97,000 | - |
| Issue of preference shares | 203,012 | - |
| Cash provided by/(used in) financing activities | 201,980 | (831) |
| **Cash Flows from Investing Activities** | | |
| Investments | 29,852 | 75,112 |
| Long term receivable received | - | 121,260 |
| Additions to fixed assets | (14,900) | (48,315) |
| Proceeds on disposal of fixed assets | 2,586 | 252 |
| Cash provided by investing activities | 17,538 | 148,309 |
| | 660,215 | 407,767 |
| Exchange gain on cash and cash equivalents | 2,826 | 2,118 |
| Increase in cash and cash equivalents | 663,041 | 409,885 |
| Cash and cash equivalents at beginning of year | 1,184,424 | 774,539 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 1,847,465 | 1,184,424 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

## 1. Identification and Activities

(a) Jamaica International Insurance Company Limited (the company) is a limited liability company incorporated and domiciled in Jamaica. The company is a wholly owned subsidiary of GraceKennedy Limited, which is also incorporated in Jamaica and which is its ultimate parent company.

(b) The registered office of the company and its ultimate parent is 73 Harbour Street, Kingston, Jamaica.

(c) The company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal activity is the underwriting of general insurance business.

## 2. Significant Accounting Policies

**(a) Basis of preparation**

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed and financial assets.

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. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the company's financial statements, are disclosed in Note 4.

***Standards, interpretations and amendments to published standards effective in 2006***

Certain interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new interpretations and amendments, and has adopted the following IFRS, which is relevant to its operations. The 2005 comparative figures have been amended as required, in accordance with the relevant requirements:

- **IAS 19 (Amendment) - Employee Benefits**, introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

***Standards, interpretations and amendments to published standards that are not yet effective***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not yet effective, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures**

  This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The company will apply IFRS 7 from annual periods beginning 1 January 2007.

**2. Significant Accounting Policies (Continued)**

**(b) Foreign currency translation**

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year end exchange rates are recognised in the profit and loss account.

Translation differences resulting from changes in the amortised cost of foreign currency monetary assets classified as available-for-sale are recognised in the profit and loss account. Other changes in the fair value of these assets are recognised in equity. Translation differences on non-monetary financial assets classified as available-for-sale are reported as a component of the fair value gain or loss in equity.

**(c) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, and deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(d) Investments**

The company classifies its investments as available-for-sale. Investments classified as available-for-sale are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates. Management determines the classification of investments at initial recognition and re-evaluates such designation at each reporting date.

Purchases and sales of investments are recognised at trade date, which is the date that the company commits to purchase or sell the asset. Investments classified as available-for-sale are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Investments are derecognised when the right to receive cash flows have expired or have been transferred and the company has transferred substantially all the risk and rewards of ownership.

Changes in the fair value of monetary available-for-sale investments are analysed between translation differences resulting in changes in amortised cost of the security and other changes. The translation differences are recognised in the profit and loss account and other changes in the carrying amount are recognised in equity. Changes in the fair value of other monetary available-for-sale investments and non-monetary available-for-sale investments are recognised in equity.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale investments calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale investments are recognised in the profit and loss account when the company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If there is no active market for investments, the company establishes fair value by using valuation techniques, making maximum use of market inputs.

At each balance sheet date, the company assesses whether there is objective evidence that an investment or group of investments is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in the profit and loss account, is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments recognised in the profit and loss account are not reversed through the profit and loss account.

**2. Significant Accounting Policies (Continued)**

**(e) Insurance receivables**

Insurance receivables are carried at original negotiated amount less provision made for impairment of these receivables. A provision for impairment of insurance receivables is established when there is objective evidence that the company will not collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the expected cash flows discounted at the market rate of interest for similar borrowers.

**(f) Reinsurance ceded**

The company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet unless the right of offset exists.

**(g) Deferred policy acquisition costs**

The costs of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

**(h) Fixed assets and depreciation**

Land and buildings are shown at fair market value, based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. All other fixed assets are stated at historical cost less depreciation.

Increases in carrying amounts arising on revaluation are credited to capital reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the capital and fair value reserves; all other decreases are charged to the profit and loss account.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the period of their expected useful lives. Land is not depreciated. The expected useful lives of the other fixed assets are as follows:

| | |
|---|---|
| Freehold building | 65 years |
| Leasehold improvement | 10 years |
| Furniture, fixtures and equipment | 3 – 10 years |
| Motor vehicles | 3 – 4 years |

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit.

Repairs and maintenance expenses are charged to the profit and loss account during the financial period in which they are incurred.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(i) Intangible assets**

Separately acquired intangible assets are assessed annually for impairment and are carried at cost less any accumulated amortisation. The cost of separately acquired intangible assets comprises its purchase price, any directly attributable cost of preparing the asset for its intended use and professional fees directly attributed to acquiring the asset. Amortisation is calculated using the straight line method to allocate the cost of the assets over their estimated useful lives.

**(j) Insurance reserves**

Under the Insurance Regulations, 2001, the company is required to actuarially value its insurance reserves annually. Consequently, unearned premium reserve, unearned commissions, unexpired risk provision, claims incurred but not reported and claims outstanding have all been independently actuarially determined for the current year.

(i) Unearned premium reserve

This reserve represents that proportion of premiums written in respect of risks to be borne subsequent to the year end, under contracts entered into on or before the balance sheet date, and is computed by applying the twenty-fourths method to gross written premiums.

(ii) Unearned commission

The commission income relating to premium ceded on reinsurance contracts is deferred over the unexpired period of risk carried.

(iii) Claims equalisation reserve

This reserve represents amounts provided towards preventing exceptional fluctuations in the amounts charged to revenue in subsequent financial years in respect of catastrophe claims under insurance contracts, and is computed at 2 percent of gross written premiums.

(iv) Claims incurred but not reported

The reserve for claims incurred but not reported has been calculated by an independent actuary using 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 (Note 14).

(v) Claims outstanding

A provision is made to cover the estimated cost of settling claims arising out of events which occurred by the year end, including claims incurred but not reported (IBNR), less amounts already paid in respect of those claims. This provision is estimated by management on the basis of claims admitted and intimated.

**(k) Payables**

Payables are stated at historical cost.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(l) Income taxes**

Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current 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 tax is calculated at tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income 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.

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

Deferred tax is charged or credited in the profit and loss account, except where it relates to items charged or credited to equity, in which case deferred tax is also dealt with in equity.

**(m) Provisions**

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

**(n) Borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method.

**(o) Finance Leases**

Leases of fixed assets where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The fixed asset acquired under the finance lease is depreciated over the shorter of the useful life of the asset or the lease term.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
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**2. Significant Accounting Policies (Continued)**

**(p) Employee benefits**

(i) Pension obligations

The company participates in a defined benefit plan operated by the parent company. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for actuarial gains and losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The defined benefit obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on government securities, which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

(ii) Other post-retirement obligations

The company provides post-retirement healthcare, insurance and gratuity benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by independent qualified actuaries.

(iii) Termination benefits

Termination benefits are payable when 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 terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value

**(q) Revenue recognition**

Gross premiums are recognised over the life of the policies written, and are stated net of General Consumption Tax. Commission payable on premium income and commission receivable on reinsurance of risks are charged and credited respectively to the profit and loss account when premiums are billed. Interest income is recognised using the effective interest method.

**(r) Dividends**

Dividend distribution is recognised as a liability in the period in which the dividends are approved.

**(s) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, the comparatives have been extended to reflect the amendments to and interpretations of existing IFRS (Note 2(a)).

# Jamaica International Insurance Company Limited



**3. Insurance and Financial Risk Management**

**(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 claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. 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.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the company's insurance contracts is, however, concentrated within Jamaica.

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

Management sets policy and retention limits based on guidelines set by the Board of Directors. The policy limit and maximum net retention of any one risk for each class of insurance for the year are as follows:

| | Policy Limit $'000 | Maximum Net Retention $'000 |
|---|---|---|
| Commercial property – | | |
| Fire and consequential loss | 272,250 | 3,300 |
| Boiler and machinery and engineering | 198,000 | 3,713 |
| Burglary, money and goods in transit | 6,600 | 2,145 |
| Glass and other | 2,640 | 858 |
| Liability | 198,000 | 9,900 |
| Marine, aviation and transport | 13,200 | 600 |
| Motor | 198,000 | 9,900 |
| Pecuniary loss – | | |
| Fidelity | 6,600 | 2,145 |
| Surety/Bonds | 3,300 | 660 |
| Personal accident | 2,640 | 858 |
| Personal property | 272,500 | 3,300 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
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(expressed in Jamaica dollars unless otherwise indicated)

**3. Insurance and Financial Risk Management (Continued)**

**(b) Financial risk**

The company's activities expose it to a variety of financial risks, market risk (including currency risk, fair value interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk. Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

**(i) Market risk**

***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company is primarily exposed to foreign exchange risk arising from its US dollar investments. The balance sheet at 31 December 2006 includes aggregate net foreign assets of US$9,811,000 (2005 – US$6,989,000), in respect of such transactions. Management sets limits on the level of exposure by currency and in total based on guidelines from the Board of Directors.

***Price risk***

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company is exposed to price risk because of its holding of available-for-sale investments. The company manages its exposure to such risks by actively monitoring price movements of financial assets on the local and international market, and by maintaining a diversified portfolio of investments.

**(ii) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company has no significant concentrations of credit risk as the company has a large and diverse customer base, with no significant balances arising from any single economic or business sector, or any single entity or group of entities. The company has policies in place to ensure that sales of services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any financial institution.

**(iii) Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping sufficient liquid securities.

**(iv) Cash flow and fair value interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company is exposed to such risks primarily through its holding of available-for-sale investments. The company manages its exposure to interest rate risks by actively monitoring interest rate fluctuations of financial assets on the local and international market, and by maintaining a diversified portfolio of investments.

**3. Insurance and Financial Risk Management (Continued)**

**(c) Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented are not necessarily indicative of the amounts that the company would realise in a current market exchange.

The following methods and assumptions have been used in deriving the estimates of fair values:

(i) The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash and bank balances, short term investments, insurance receivables and payables and bank overdraft;

(ii) The fair values of variable rate instruments are assumed to approximate their carrying amounts;

(iii) The fair values of the Government of Jamaica securities and quoted instruments are estimated based on current market prices and quoted bid prices on the Jamaica Stock Exchange, respectively. The fair value of other investment instruments is based upon projected cash flows discounted at an estimated current market rate of interest;

(iv) The company's borrowings, which incur interest at prevailing market rates and which reflect its contractual obligations, are carried at amortised cost which is deemed to be the fair value of such liabilities.

## 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

***Liabilities arising from claims made under insurance contracts***

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 balance sheet 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.

Claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the company to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims.

***Retirement benefit obligations***

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate, and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The company determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the company considered interest rate of government securities that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
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## 5. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors, pursuant to the Insurance Act, appoints the actuary. His 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 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 his report on the insurance liabilities.

## 6. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Cash at bank and in hand | 46,867 | 103,512 |
| Short term investments | 1,806,137 | 1,092,681 |
| | 1,853,004 | 1,196,193 |
| Bank overdraft (Note 16) | (5,539) | (11,769) |
| | 1,847,465 | 1,184,424 |

Short term investments include interest receivable of $34,490,000 (2005 – $1,101,000). The weighted average effective interest rate on short term investments was 11.83% (2005 – $10.43%), and these investments have an average maturity of up to 90 days.

# Jamaica International Insurance Company Limited
Notes to the Financial Statements
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**7. Investments**

Investments are classified as available-for-sale and comprise the following:

| | Years to Maturity | | | | Total | Total |
|---|---|---|---|---|---|---|
| | Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | 2006 | 2005 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Government of Jamaica – | | | | | | |
| Bonds | 230,420 | 58,216 | - | 211,024 | 499,660 | 327,455 |
| Local registered stocks | 45,000 | 31,000 | - | 44,362 | 120,362 | 131,491 |
| Debentures | 27,800 | - | - | - | 27,800 | 139,955 |
| Treasury bills | 2,187 | - | - | - | 2,187 | 61,442 |
| | 305,407 | 89,216 | - | 255,386 | 650,009 | 660,343 |
| Quoted equity securities | | | | | 29,947 | 28,142 |
| Unquoted equity securities | | | | | 646 | 646 |
| | | | | | 680,602 | 689,131 |

Government of Jamaica investments include interest receivable of $17,114,000 (2005 – $40,054,000).

Included in investments are Local Registered Stocks valued at $45,000,000, which have been pledged with the regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

The average effective yields by the earlier of the contractual re-pricing or maturity dates are as follows:

| | Years to Maturity | | | | Total | Total |
|---|---|---|---|---|---|---|
| | Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | 2006 | 2005 |
| | % | % | % | % | % | % |
| Government of Jamaica – | | | | | | |
| Bonds | 11.29 | 8.75 | - | 11.29 | 10.99 | 13.00 |
| Local registered stocks | 15.66 | 13.75 | - | 15.80 | 15.71 | 16.09 |
| Debentures | 14.32 | - | - | - | 14.32 | 13.54 |
| Treasury bills | 12.82 | - | - | - | 12.82 | 13.03 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

## 8. Due from Agents, Brokers and Policyholders

| | **2006 $'000** | **2005 $'000** |
|---|---|---|
| Insurance receivables – | | |
| Agents and brokers | 162,316 | 239,078 |
| Policyholders | 62,845 | 74,623 |
| Claims recovery | 34,645 | 30,481 |
| | 259,806 | 344,182 |
| Less: Provision for impairment | (4,021) | (4,021) |
| | 255,785 | 340,161 |

## 9. Other Receivables

| | **2006 $'000** | **2005 $'000** |
|---|---|---|
| Staff loans | 2,473 | 2,792 |
| Other | 9,677 | 5,724 |
| | 12,150 | 8,516 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

## 10. Fixed Assets

| | Freehold Land and Buildings $'000 | Leasehold Improvements $'000 | Furniture, Fixtures and Equipment $'000 | Motor Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|
| | | | **2006** | | |
| At Cost or Valuation - | | | | | |
| At 1 January 2006 | 164,462 | 98,679 | 73,365 | 13,287 | 349,793 |
| Additions | 1,326 | 1,416 | 3,677 | 8,481 | 14,900 |
| Disposals | - | (685) | (153) | (5,367) | (6,205) |
| Revaluation | 48,427 | - | - | - | 48,427 |
| At 31 December 2006 | 214,215 | 99,410 | 76,889 | 16,401 | 406,915 |
| Depreciation - | | | | | |
| At 1 January 2006 | 1,564 | 88,034 | 19,063 | 8,596 | 117,257 |
| Charge for the year | 1,752 | 9,875 | 7,571 | 3,818 | 23,016 |
| On disposals | - | (147) | (144) | (5,367) | (5,658) |
| Revaluation | (3,079) | - | - | - | (3,079) |
| At 31 December 2006 | 237 | 97,762 | 26,490 | 7,047 | 131,536 |
| Net Book Value - | | | | | |
| 31 December 2006 | 213,978 | 1,648 | 50,399 | 9,354 | 275,379 |
| | | | **2005** | | |
| At Cost or Valuation - | | | | | |
| At 1 January 2005 | 149,903 | 98,665 | 42,240 | 11,674 | 302,482 |
| Additions | 14,559 | 14 | 32,129 | 1,613 | 48,315 |
| Disposals | - | - | (1,004) | - | (1,004) |
| At 31 December 2005 | 164,462 | 98,679 | 73,365 | 13,287 | 349,793 |
| Depreciation - | | | | | |
| At 1 January 2005 | - | 78,167 | 14,689 | 6,567 | 99,423 |
| Charge for the year | 1,564 | 9,867 | 5,267 | 2,029 | 18,727 |
| On disposals | - | - | (893) | - | (893) |
| At 31 December 2005 | 1,564 | 88,034 | 19,063 | 8,596 | 117,257 |
| Net Book Value - | | | | | |
| 31 December 2005 | 162,898 | 10,645 | 54,302 | 4,691 | 232,536 |

(a) Land and buildings are carried at fair market value based on a valuation as at 31 December 2006 by D.C. Tavares & Finson Company Limited, professional valuers. If land and buildings were stated on the historical cost basis, the cost would be $91,748,000 (2005 – $90,422,000) with accumulated depreciation of $11,534,000 (2005 – $9,881,000).

(b) Motor vehicles costing $1,617,000 (2005 – $6,984,000) with accumulated depreciation of $1,617,000 (2005 – $5,778,000) were acquired under finance lease arrangements (Note 16(b)).

# Jamaica International Insurance Company Limited

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## 11. Retirement Benefits

***Pension benefits***
The company participates in a pension plan operated by GraceKennedy Limited and administered by First Global Financial Services Limited, in which all permanent employees must participate. The plan, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.5% as recommended by independent actuaries. Pension at normal retirement age is based on 2% of final 3-year average salary per year of pensionable service, plus any declared bonus pensions.

***Other retirement benefits***
The company participates in a number of post-retirement healthcare, insurance and gratuity benefit schemes operated by GraceKennedy Limited. Funds are not built-up to cover the obligations under these retirement benefit schemes.

| | Pension benefits | | Other retirement benefits | |
|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| Amounts recognised in the balance sheet | 95,705 | 77,440 | (55,801) | (46,235) |
| Amounts recognised in the profit and loss account | 17,530 | 7,443 | (13,580) | (9,657) |

The amounts recognised in the balance sheet were determined as follows:

| | Pension benefits | | Other retirement benefits | |
|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| Fair value of plan assets | 224,360 | 557,579 | - | - |
| Present value of obligations | (173,175) | (131,184) | (78,808) | (57,547) |
| | 52,185 | 426,395 | (78,808) | (57,547) |
| Unrecognised actuarial losses/(gains) | 44,520 | (348,955) | 23,007 | 11,312 |
| | 95,705 | 77,440 | (55,801) | (46,235) |

The amounts recognised in the profit and loss account, in staff costs, were determined as follows:

| | Pension benefits | | Other retirement benefits | |
|---|---|---|---|---|
| | 2006 $'000 | 2005 $'000 | 2006 $'000 | 2005 $'000 |
| Current service cost | (12,222) | (7,600) | (4,103) | (3,198) |
| Interest cost | (17,786) | (13,519) | (7,453) | (6,313) |
| Employee contributions | 8,775 | (6,985) | - | - |
| Expected return on plan assets | 62,556 | 21,577 | - | - |
| Actuarial losses recognised | (23,793) | - | (2,024) | (146) |
| | 17,530 | 7,443 | (13,580) | (9,657) |

The actual return on plan assets was a loss of $300,577,000 (2005 – gain of $375,710,000).

# Jamaica International Insurance Company Limited
Notes to the Financial Statements
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**11. Retirement Benefits (Continued)**

The movement in the defined benefit obligation during the year was as follows:

| | Pension benefits | | Other retirement benefits | |
|---|---|---|---|---|
| | **2006** **$'000** | **2005** **$'000** | **2006** **$'000** | **2005** **$'000** |
| At beginning of year | (131,184) | (102,294) | (57,510) | (47,569) |
| Current service cost | (12,222) | (7,600) | (4,103) | (3,198) |
| Interest cost | (17,786) | (13,519) | (7,453) | (6,313) |
| Benefits paid | 2,235 | 3,481 | 3,977 | 530 |
| Actuarial losses | (14,218) | (11,252) | (13,719) | (997) |
| At end of year | (173,175) | (131,184) | (78,808) | (57,547) |

The movement in the fair value of plan assets during the year was as follows:

| | Pension benefits | | Other retirement benefits | |
|---|---|---|---|---|
| | **2006** **$'000** | **2005** **$'000** | **2006** **$'000** | **2005** **$'000** |
| At beginning of year | 557,579 | 177,747 | - | - |
| Employer contributions | 734 | 618 | - | - |
| Employee contributions | 8,775 | 6,985 | - | - |
| Expected return on plan assets | 62,556 | 21,577 | - | - |
| Benefits paid | (2,235) | (3,481) | - | - |
| Actuarial gains/(losses) | (403,049) | 354,133 | - | - |
| At end of year | 224,360 | 557,579 | - | - |

The plan assets in the pension fund were comprised as follows:

| | **2006** **%** | **2005** **%** |
|---|---|---|
| Equity | 28 | 27 |
| Debt | 3 | 3 |
| Government securities | 63 | 62 |
| Other | 6 | 8 |
| | 100 | 100 |

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected employer contributions to the plan for the year ended 31 December 2007 amount to $733,000.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2006**

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**11. Retirement Benefits (Continued)**

The principal actuarial assumptions used were as follows:

| | 2006 | 2005 |
|---|---|---|
| Discount rate | 12.0% | 12.50% |
| Long term inflation rate | 8.50% | 8.50% |
| Expected return on plan assets | 12.00% | 12.00% |
| Future salary increases | 9.50% | 9.50% |
| Future pension increases | 3.50% | 3.50% |
| Long term increase in health costs | 10.0% | 10.00% |

Assumptions regarding future mortality experience are set based on advice, published statistics and experience. At normal retirement age, 90% of males and females are assumed to be married. The age difference between husband and wife is assumed to average 3 years. Post-employment mortality for active members and mortality for pensioners and deferred pensioners are based on the 1983 Group Annuity Mortality Tables.

A 1% increase/(decrease) in the in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of $5,330,000/($3,438,000), and an increase/(decrease) in the defined benefit obligation of $40,318,000/($26,402,000).

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for pension plan assets and liabilities are as follows:

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Fair value of plan assets | 224,360 | 557,579 | 177,747 | 139,200 | 109,269 |
| Defined benefit obligation | (173,175) | (131,184) | (102,294) | (66,302) | (49,509) |
| Surplus | 51,185 | 426,395 | 75,453 | 72,898 | 59,760 |
| Experience adjustments – | | | | | |
| Fair value of plan assets | (363,133) | 354,133 | 18,468 | 16,636 | (536) |
| Defined benefit obligation | (660) | 11,252 | 4,699 | 5,358 | (2,223) |

The five-year trend for the defined benefit obligation and experience adjustments for other retirement benefits are as follows:

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Defined benefit obligation | (78,808) | (57,510) | (47,569) | (28,989) | (24,055) |
| Experience adjustments | 269 | 825 | 3,033 | (1,656) | (2,765) |

# Jamaica International Insurance Company Limited

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## 12. Intangible Asset

The company has assumed the complete portfolio of Jamaican policies held by Dyoll Insurance Company Limited. The cost of the transaction, including directly attributable fees and expenses, was $589,088,000, of which $119,072,000 was paid in cash and the remaining balance was attributed to the cost of unearned premium reserve that would result from the company's issuance of new policies. The coverage took effect from 7 March 2005.

The intangible asset is amortised over 15 years commencing 1 January 2006 using the straight line method. The carrying value of the asset was determined as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Cost of insurance portfolio acquired | 589,088 | 589,088 |
| Less: Accumulated amortisation | (39,272) | - |
| | 549,816 | 589,088 |

## 13. Insurance Reserves

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Gross – | | |
| Claims outstanding | 1,093,363 | 1,177,570 |
| Unearned premiums | 1,249,587 | 1,248,932 |
| Unearned commission | 76,784 | 73,458 |
| Claims equalisation | 2,548 | 2,548 |
| | 2,422,282 | 2,502,508 |
| Reinsurance ceded – | | |
| Claims outstanding | 245,417 | 488,167 |
| Unearned premiums | 652,460 | 598,988 |
| | 897,877 | 1,087,155 |
| Net – | | |
| Claims outstanding | 847,946 | 689,403 |
| Unearned premiums | 597,127 | 649,944 |
| Unearned commission | 76,784 | 73,458 |
| Claims equalisation | 2,548 | 2,548 |
| | 1,524,405 | 1,415,353 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**13. Insurance Reserves (Continued)**

An actuarial valuation was performed by the company's appointed actuary, Josh Worsham, FCAS, MAAA of KPMG Bermuda to value the policy and claims liabilities of the company as at 31 December 2006, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles. The actuary has stated that his report conforms to the standards of practice as established by the Canadian Institute of Actuaries, with such changes as directed by the Financial Services Commission, specifically, that the valuation of some policy and claims liabilities not reflect the time value of money.

In arriving at his valuation, the actuary employed 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.

In using the Paid/Incurred Loss Development methods, ultimate losses are estimated by calculating past paid/incurred loss development factors and applying them to exposure periods with further expected paid/incurred loss development. The Bornhuetter-Ferguson Paid/Incurred Loss methods is a combination of the Paid/Incurred Loss Development methods and a loss ratio method; however, these expected losses are modified to the extent paid/incurred losses to date differ from what would have been expected based on the selected paid/incurred loss development pattern. Finally, the Frequency-Severity method is calculated by multiplying an estimate of ultimate claims with an estimate of the ultimate severity per reported claim.

In his opinion dated 26 March 2007, the actuary found that the amount of policy and claims liabilities represented in the balance sheet at 31 December 2006 makes proper provision for the future payments under the company's policies and meets the requirements of the Insurance Act and other appropriate regulations of Jamaica; that a proper charge on account of these liabilities has been made in the statement of operations; and that there is sufficient capital available to meet the solvency standards as established by the Financial Services Commission.

The movement in claims outstanding was as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Net reserves for claims outstanding at beginning of year – | | |
| Gross reserves for claims outstanding | 1,177,570 | 1,180,848 |
| Reinsurance ceded | (488,167) | (693,294) |
| | 689,403 | 487,554 |
| Movement during the year – | | |
| Claims incurred, including IBNR | 875,035 | 713,147 |
| Claims paid | (716,492) | (511,298) |
| | 158,543 | 201,849 |
| Net reserves for claims outstanding at end of year | 847,946 | 689,403 |
| Reinsurance ceded | 245,417 | 488,167 |
| Gross reserves for claims outstanding at end of year | 1,093,363 | 1,177,570 |

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the balance sheet date. The reserves for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

## 14. Other Payables

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Accruals | 50,131 | 33,360 |
| Other | 11,309 | 22,225 |
| | 61,440 | 55,585 |

## 15. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33⅓%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

The movement on the deferred income tax account is as follows:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| At beginning of year | 53,884 | 52,046 |
| Tax charged to the profit and loss account (Note 23) | 9,701 | 1,838 |
| Tax charged to equity – revaluation of fixed assets | 16,099 | - |
| At end of year | 79,684 | 53,884 |

The movement in deferred tax liabilities and assets, prior to appropriate offsetting, is as follows:

| **Deferred tax liabilities** | **Revaluation of buildings $'000** | **Retirement benefits $'000** | **Interest receivable $'000** | **Foreign exchange gains $'000** | **Total $'000** |
|---|---|---|---|---|---|
| At 1 January 2006 | 19,653 | 25,813 | 13,809 | 23,559 | 82,834 |
| Tax charged to the profit and loss account | - | 6,089 | 3,392 | 5,335 | 14,816 |
| Tax charged to equity | 16,099 | - | - | - | 16,099 |
| At 31 December 2006 | 35,752 | 31,902 | 17,201 | 28,894 | 113,749 |

| **Deferred tax assets** | **Accelerated depreciation $'000** | **Retirement benefits $'000** | **Total $'000** |
|---|---|---|---|
| At 1 January 2006 | 13,539 | 15,411 | 28,950 |
| Tax credited to the profit and loss account | 1,926 | 3,189 | 5,115 |
| At 31 December 2006 | 15,465 | 18,600 | 34,065 |

These balances include the following:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Deferred tax liabilities to be settled after more than 12 months | 67,654 | 57,246 |
| Deferred tax assets to be recovered after more than 12 months | 34,065 | 28,950 |

# Jamaica International Insurance Company Limited
Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

### 16. Borrowings

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| GraceKennedy Limited | - | 97,645 |
| Finance lease obligations | - | 387 |
| Bank overdraft | 5,539 | 11,769 |
| | 5,539 | 109,801 |

**(a) GraceKennedy Limited**
This represented an Urban Renewal Bond which is repaid during the year. The bond incurred interest at 5 to 8 percentage points below the treasury bill rate and was adjusted bi-annually.

**(b) Finance lease obligations**
Finance lease arrangements were obtained for the purchase of motor vehicles (Note 10). These leases incurred interest at a rate of 21.2%. Amounts paid in the year ended 31 December 2006 amounted to $408,000, of which $21,000 was finance charges.

**(c) Bank overdraft**
The company does not have an overdraft facility. The year end bank overdraft balance was due to unpresented cheques.

### 17. Share Capital

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Authorised, issued and fully paid - | | |
| 862,064,000 (2005 – 265,064,000) Ordinary shares | 862,064 | 265,064 |
| 3,130,000 Preference shares | 203,012 | - |
| | 1,065,076 | 265,064 |

At an Extraordinary General Meeting held on 11 January 2006, the following resolutions were passed:

(a) The existing authorised and issued share capital of the company were converted into shares of no par value;

(b) The authorised share capital of the company was increased by the creation of 597,000,000 ordinary shares of no par value to rank pari passu in all respects with the existing ordinary shares of the company;

(c) The authorised share capital of the company was further increased by the creation of 3,130,000 preference shares of no par value (these shares were subsequently issued to GraceKennedy (St. Lucia) Limited for a cash consideration of US$3,130,000);

(d) Ordinary shares totalling 500,000,000 were issued to the parent company as fully paid up bonus shares by the capitalisation of $500,000,000 of retained earnings; and

(e) Ordinary shares totalling 97,000,000 were issued to the parent company for a cash consideration of $97,000,000.

# Jamaica International Insurance Company Limited
Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**18. Capital and Fair Value Reserves**

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Realised gain on sale of investments | 824 | 824 |
| Unrealised gain on the revaluation of available-for-sale investments | 96,735 | 74,594 |
| Unrealised surplus on the revaluation of fixed assets | 76,482 | 41,074 |
| | 174,041 | 116,492 |

**19. Other Income**

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Interest earned | 251,301 | 213,152 |
| Gain on disposal of fixed assets | 2,039 | 141 |
| Dividend income | 1,173 | 1,577 |
| Net foreign exchange gains | 24,948 | 28,162 |
| Miscellaneous income | 21,370 | 12,826 |
| Rental income, net | 14,476 | 14,922 |
| | 315,307 | 270,780 |

**20. Finance Costs**

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Interest paid - | | |
| Urban Renewal Bond | 300 | 8,691 |
| Finance lease arrangements | 32 | 142 |
| | 332 | 8,833 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

### 21. Expenses by Nature

Total underwriting, administration and other operating expenses:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Advertising and public relations | 49,572 | 31,699 |
| Allocation of central office expenses paid to parent company | 30,540 | 23,940 |
| Amortisation of intangible asset | 39,272 | - |
| Auditor's remuneration | 2,225 | 1,740 |
| Bad debt expense | 152 | 6,302 |
| Bank charges | 4,138 | 2,706 |
| Data processing | 23,559 | 23,813 |
| Depreciation | 13,251 | 8,962 |
| Directors' fees | 1,316 | 1,805 |
| Occupancy - rent, utilities, insurance, security | 26,591 | 23,034 |
| Office expenses | 12,621 | 11,180 |
| Professional fees | 4,596 | 4,810 |
| Registration fees and stamp duty | 17,461 | 11,797 |
| Repairs and maintenance | 9,352 | 9,793 |
| Staff costs (Note 24) | 217,460 | 179,046 |
| Underwriting expenses – | | |
| Motor | 18,394 | 12,814 |
| Property | 830 | 1,602 |
| | 471,330 | 355,043 |

### 22. Staff Costs

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Wages and salaries | 176,027 | 140,754 |
| Statutory contributions | 16,741 | 11,419 |
| Pension – defined benefit (Note 11) | (17,530) | (7,443) |
| Other retirement benefits (Note 11) | 13,580 | 9,657 |
| Other | 28,642 | 24,659 |
| | 217,460 | 179,046 |

The number of persons employed full-time by the company at year end was 106 (2005 – 85).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**23. Taxation**

Taxation is based on the profit for the year and comprises income tax at 33⅓%:

| | **2006** **$'000** | **2005** **$'000** |
|---|---|---|
| Current taxation | 102,928 | 60,058 |
| Adjustment to provision in prior years | (21,194) | - |
| | 81,734 | 60,058 |
| Deferred taxation (Note 15) | 9,701 | 1,838 |
| | 91,435 | 61,896 |

The tax on the company's profit differs from the theoretical amount that would arise using the tax rate of 33⅓% as follows:

| | **2006** **$'000** | **2005** **$'000** |
|---|---|---|
| Profit before taxation | 250,984 | 251,112 |
| Tax calculated at a tax rate of 33⅓% | 83,661 | 83,704 |
| Adjusted for the effects of – | | |
| Tax-free interest income – | | |
| Current year | (5,451) | (16,631) |
| Adjustment to prior year | 6,954 | - |
| Tax-free rental income under the Urban Renewal Act | (6,436) | (6,436) |
| Amortisation of intangible assets | 13,091 | - |
| Other charges and allowances | (384) | 1,259 |
| | 91,435 | 61,896 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

**24. Related Party Transactions and Balances**

(a) The balance sheet includes the following balances with group companies:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Cash and short term investments – | | |
| Fellow subsidiaries | 148,963 | 124,268 |
| Parent company | 348 | 342 |
| | 149,311 | 124,610 |
| Due from agents, brokers and policyholders – Fellow subsidiaries | 62,086 | 59,538 |
| Due (to)/from reinsurers – Fellow subsidiaries | (12,880) | 7,850 |
| Due from/(to) parent company | 33 | (125) |
| Borrowings – | | |
| Fellow subsidiary | 5,539 | 11,769 |
| Parent company | - | 97,645 |
| Group pension plan | - | 387 |
| | 5,539 | 109,801 |

(b) The profit and loss account includes the following transactions with key management personnel, all of whom are directors of the company:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Staff costs – | | |
| Wages and salaries | 29,395 | 25,872 |
| Statutory contributions | 2,298 | 2,498 |
| Fees as directors | 1,413 | 1,805 |
| Gross premiums written | 1,732 | 1,488 |

# Jamaica International Insurance Company Limited

Notes to the Financial Statements
**31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

**24. Related Party Transactions and Balances (Continued)**

(c) The profit and loss account includes the following transactions with group companies:

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Gross premiums written – | | |
| Fellow subsidiaries | 257,239 | 229,486 |
| Parent company | 47,084 | 27,234 |
| | 304,323 | 256,720 |
| Commission received – Fellow subsidiaries | 6,201 | 2,243 |
| Commission paid – Fellow subsidiaries | 96,216 | 97,202 |
| Administration expenses – Parent company | 13,537 | 11,844 |
| Other operating expenses – | | |
| Allocation of central office expenses paid to parent company | 30,540 | 23,940 |
| Interest earned – | | |
| Fellow subsidiaries | 1,144 | 7,053 |
| Parent company | - | 4,689 |
| | 1,144 | 11,742 |
| Rental income – | | |
| Fellow subsidiaries | 4,933 | 4,783 |
| Parent company | 19,308 | 19,308 |
| | 23,441 | 24,091 |
| Interest expense – | | |
| Parent company | 300 | 8,691 |
| Group pension plan | 32 | 142 |
| | 332 | 8,833 |

# Jamaica International Insurance Company Limited

Underwriting Revenue Account

**Year ended 31 December 2006**

(expressed in Jamaica dollars unless otherwise indicated)

| | Liability | M.A.T. | Motor | Pecuniary loss | Personal accident | Property | 2006 Total | 2005 Total |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Income** | | | | | | | | |
| Gross premiums | 79,348 | 26,303 | 1,205,333 | 14,655 | 1,336 | 1,941,516 | 3,268,491 | 2,328,903 |
| Reinsurance premiums | (11,139) | (19,961) | (11,938) | (6,403) | (212) | (1,839,102) | (1,888,755) | (1,165,207) |
| Excess reinsurance premiums | (1,731) | - | (31,991) | - | - | (67,514) | (101,236) | (58,933) |
| | 66,478 | 6,342 | 1,161,404 | 8,252 | 1,124 | 34,900 | 1,278,500 | 1,104,763 |
| Reinsurance commissions | 1,546 | 5,832 | 1,736 | 2,622 | 271 | 158,298 | 170,305 | 113,172 |
| | 68,024 | 12,174 | 1,163,140 | 10,874 | 1,395 | 193,198 | 1,448,805 | 1,217,935 |
| **Expenditure** | | | | | | | | |
| Claims incurred | 28,876 | (14,835) | 863,432 | (2,826) | 109 | 192,833 | 1,067,589 | 1,494,517 |
| Reinsurance recoveries | (3,190) | 14,773 | (1,752) | 551 | (84) | (202,852) | (192,554) | (781,161) |
| | 25,686 | (62) | 861,680 | (2,275) | 25 | (10,019) | 875,035 | 713,356 |
| Hire risk pool & professional indemnity pools | - | - | - | - | - | - | - | (209) |
| Unearned premium – net increase | (6,679) | (917) | (12,873) | 2,366 | (604) | (34,110) | (52,817) | (11,628) |
| Commission paid | 8,897 | 888 | 97,358 | 1,586 | 48 | 110,471 | 219,248 | 172,208 |
| Underwriting expenses | - | - | 17,539 | - | - | 1,685 | 19,224 | 14,416 |
| Operating expenses | 9,758 | 3,235 | 148,232 | 1,802 | 164 | 238,768 | 401,959 | 315,580 |
| | 37,662 | 3,144 | 1,111,936 | 3,479 | (367) | 306,795 | 1,462,649 | 1,203,723 |
| **Underwriting (Loss)/Profit** | 30,362 | 9,030 | 51,204 | 7,395 | 1,762 | (113,597) | (13,844) | 14,212 |

# Jamaica International Insurance Company Limited
Administration Expenses
**Year ended 31 December 2006**
(expressed in Jamaica dollars unless otherwise indicated)

| | 2006 $'000 | 2005 $'000 |
|---|---|---|
| Advertising and public relations | 29,965 | 26,372 |
| Amortisation of intangible assets | 39,272 | - |
| Audit fees | 2,225 | 1,740 |
| Bad debts, net of recoveries | 152 | 6,302 |
| Bank charges | 4,138 | 2,706 |
| Data processing | 23,559 | 23,813 |
| Depreciation | 13,251 | 8,962 |
| Directors' fees | 1,316 | 1,805 |
| Electricity | 7,632 | 5,424 |
| Entertainment | 584 | 497 |
| Insurance | 3,786 | 3,082 |
| Miscellaneous | 5,008 | 4,976 |
| Motor vehicle | 5,243 | 4,398 |
| Office rental | 1,973 | 3,304 |
| Printing and stationery | 4,524 | 6,261 |
| Professional fees | 4,596 | 4,810 |
| Registration fees | 9,408 | 8,548 |
| Repairs and maintenance | 4,109 | 5,395 |
| Security | 2,967 | 2,947 |
| Staff costs | 217,460 | 179,046 |
| Stamp duty | 8,053 | 3,249 |
| Telephone, telex and postage | 10,233 | 8,250 |
| Travelling | 2,505 | 3,693 |
| | 401,959 | 315,580 |