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JAMAICA INTERNATIONAL INSURANCE COMPANY

Jamaica International Insurance Company Limited

Financial Statements
31 December 2007

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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 46, which comprise the balance sheet as of 31 December 2007 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 2007, 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
28 March 2008
Kingston, Jamaica

Jamaica International Insurance Company Limited
Balance Sheet
31 December 2007
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
ASSETS			
Cash and Cash Equivalents	8	533,895	551,253
Investments	9	2,347,605	1,982,353
Due from Agents, Brokers and Policyholders	10	293,390	255,785
Recoverable from Reinsurers	15	1,223,456	897,877
Deferred Policy Acquisition Costs		99,137	92,134
Other Receivables	11	25,938	12,150
Due from Parent Company	26	1,207	33
Fixed Assets	12	281,859	275,379
Retirement Benefit Asset	13	90,836	95,705
Intangible Asset	14	510,543	549,816
		5,407,866	4,712,485

Jamaica International Insurance Company Limited

Balance Sheet (Continued)

31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to Reinsurers		183,621	305,304
Insurance Reserves	15	3,085,384	2,422,282
Other Payables	16	74,790	61,440
Taxation Payable		10	10,323
Deferred Tax Liabilities	17	53,152	79,684
Borrowings	18	27,610	5,539
Retirement Benefit Obligations	13	71,406	55,801
		3,495,973	2,940,373
Shareholders' Equity			
Share capital	19	1,065,076	1,065,076
Capital and fair value reserves	20	180,629	174,041
Retained earnings		666,188	532,995
		1,911,893	1,772,112
		5,407,866	4,712,485

Approved for issue by the Board of Directors on 28 March 2008 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 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 $'000	2006 $'000
Gross Premiums Written		3,810,859	3,268,491
Reinsurance ceded		(2,228,337)	(1,989,991)
Net premium income		1,582,522	1,278,500
Unearned premium reserve		(123,069)	52,817
Net Premiums Earned		1,459,453	1,331,317
Commission income		192,423	170,305
Commission expense		(245,589)	(219,248)
Claims expense		(1,023,315)	(875,035)
Underwriting expenses		(16,053)	(19,224)
Administration expenses		(454,283)	(401,959)
Underwriting Loss		(87,364)	(13,844)
Other income	21	366,811	315,307
Other operating expenses		(63,120)	(50,147)
Finance costs	22	-	(332)
Profit before Taxation		216,327	250,984
Taxation	25	(65,431)	(91,435)
NET PROFIT		150,896	159,549

Jamaica International Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2007

(expressed in Jamaican 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 2006, as previously reported		265,064	265,064	116,492	868,440	1,249,996
Adjustment to 2005 tax provision	27	-	-	-	21,194	21,194
Balance at 1 January 2006, as restated		265,064	265,064	116,492	889,634	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	19	97,000	97,000	-	-	97,000
Issue of preference shares	19	3,130	203,012	-	-	203,012
Issue of bonus ordinary shares	19	500,000	500,000	-	(500,000)	-
Dividends on preference shares		-	-	-	(16,188)	(16,188)
Balance at 31 December 2006, as restated		865,194	1,065,076	174,041	532,995	1,772,112
Net income recognised directly in equity						
Fair value gains -						
Available-for-sale investments		-	-	6,588	-	6,588
		-	-	6,588	-	6,588
Net profit		-	-	-	150,896	150,896
Total recognised income for the year		-	-	6,588	150,896	157,484
Dividends on preference shares		-	-	-	(17,703)	(17,703)
Balance at 31 December 2007		865,194	1,065,076	180,629	666,188	1,911,893

Jamaica International Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	2007 $'000	2006 $'000
Cash Flows from Operating Activities		
Gross premiums received	3,773,254	3,352,867
Reinsurance paid	(2,350,020)	(1,982,998)
Commissions received	193,485	173,631
Commissions paid	(252,592)	(218,882)
Claims paid	(809,923)	(716,492)
Interest received	272,594	274,241
Interest paid	-	(332)
Rent received	17,402	14,476
Other receipts	35,011	19,817
Underwriting, administration and other operating expenditure	(429,300)	(429,140)
Taxation paid	(102,276)	(46,491)
Cash provided by operating activities	347,635	440,697
Cash Flows from Financing Activities		
Dividends on preference shares	(33,891)	-
Long term loan repaid	-	(97,645)
Finance lease payments	-	(387)
Issue of ordinary shares	-	97,000
Issue of preference shares	-	203,012
Cash (used in)/provided by financing activities	(33,891)	201,980
Cash Flows from Investing Activities		
Investments	(335,020)	(624,631)
Additions to fixed assets	(22,409)	(14,900)
Proceeds on disposal of fixed assets	1,738	2,586
Cash used in investing activities	(355,691)	(636,945)
	(41,947)	5,732
Exchange gain on cash and cash equivalents	2,518	2,826
(Decrease)/increase in cash and cash equivalents	(39,429)	8,558
Cash and cash equivalents at beginning of year	545,714	537,156
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 8)	506,285	545,714

Jamaica International Insurance Co Limited

Notes to the Financial Statements

31 December 2007

(expressed in Jamaican 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

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

(a) Basis of preparation

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and available-for-sale financial instruments.

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 managements' 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 financial statements are disclosed in Note 6.

Interpretations and amendments to published standards effective in 2007

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:

- IFRS 7, Financial Instruments: Disclosures, and the Complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning or or after 1 January 2007). IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the company's financial instruments. IFRS 7 supercedes IAS 30 and the disclosure requirements of IAS 32.

The adoption of IFRS 7 did not result in substantial changes to the company's accounting policies. There was no impact on opening retained earnings at 1 January 2006 from the adoption of IFRS 7.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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 were not yet effective at balance sheet date, 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:

- IAS 23 (Amendment), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The company is not expected to be affected as there are no qualifying assets.

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, ‘Disclosures about segments of an enterprise and related information’. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The company will apply IFRIC 14 from 1 January 2008, but it is not expected to have a material impact on the company’s accounts.

(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) Financial instruments
Financial instruments carried on the balance sheet include cash and cash equivalents, investments, amounts due from or to policyholders, brokers, agents, reinsurers, other receivables, due from parent company and other payables. 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 are discussed in Note 5.

2. Significant Accounting Policies (Continued)

(d) 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.

(e) 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 is calculated using the effective interest method and 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.

(f) 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.

2. Significant Accounting Policies (Continued)

(g) 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.

(h) 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.

(i) 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 Co Limited
Notes to the Financial Statements
31 December 2007
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2. Significant Accounting Policies (Continued)

(j) 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.

(k) Impairment of long-lived assets
Fixed assets and other long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price or value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(l) 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 two (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 15).

(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.

(m) Payables
Payables are stated at historical cost.

2. Significant Accounting Policies (Continued)

(n) 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.

(o) 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.

(p) 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.

(q) 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.

2. Significant Accounting Policies (Continued)

(r) 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 and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(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. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(iii) 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 balance sheet date.

(iv) 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

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2. Significant Accounting Policies (Continued)

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the company's activities. Revenue is shown net of General Consumption Tax and is recognised as follows:

Sale of insurance services

Gross premiums written are recognised on a pro-rated basis over the life of the policies written.

Commissions payable on premium income and commission receivable on reinsurance of risks are charged and credited respectively to revenue when premiums are billed.

Interest income

Interest income is recognised within other income in the profit and loss account using the effective interest method.

Dividend income

Dividend income for equities is recognised within other income in the profit and loss account when the right to receive payment is established.

(t) Dividends

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

(u) 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 Co Limited

Notes to the Financial Statements
31 December 2007
(expressed in Jamaican dollars unless otherwise indicated)

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 minimise potential adverse effects on the company's financial performance.

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

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

(i) Corporate Governance Committee
This committee assists the Board in its oversight of the company's corporate governance policies practices and initiatives.

(i) Finance Department

It is responsible for managing the company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the company.

(iv) Investment and Loan Committee

The Investment and Loan Committee is responsible for monitoring and approving investment strategies for the company.

(v) 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 risks are insurance, credit, liquidity, market and other operational risk. Market risk includes currency risk, interest rate and other price risk.

3. Insurance and Financial Risk Management (Continued)

The company issues contracts that transfer insurance risk. This section summarises the risk and the way the company manages the 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. 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.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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	290,812	3,525
Boiler and machinery	141,000	2,543
Engineering	211,500	3,965
Burglary, money and goods in transit	8,812	3,525
Glass and other	3,525	1,410
Liability	211,500	10,575
Marine, aviation and transport	13,200	600
Motor	211,500	10,575
Pecuniary loss –		
Fidelity	8,812	3,525
Surety/Bonds	150,000	30,000
Personal accident	10,575	4,230
Personal property	290,812	3,525

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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 experiences period.
- For accident years 1996 and prior, the level of gross outstanding claims reserve adequacy is the same as the level of net outstanding claims reserve adequacy.
- 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 implicitly 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.

(ii) 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.

Reserves have been calculated on an undiscounted basis as well as on a discounted basis with a risk load added in. Where the undiscounted reserve was larger than the discounted reserve including the calculated provision for adverse deviation, the undiscounted amount was chosen. This assumes that holding reserves at an undiscounted amount includes an implicit risk load.

Jamaica International Insurance Co Limited

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development 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 total claims outstanding for each year has changed at successive year-ends.

		2003 $'000	2003 and prior $'000	2004 $'000	2004 and prior $'000	2005 $'000	2005 and prior $'000	2006 $'000	2006 and prior $'000	2007 $'000	2007 and prior $'000
2003	Paid during year	159,189	225,919								
	UCAE, end of year	116,633	375,758								
	IBNR, end of year	22,051	49,785								
	Ratio: excess (deficiency)										
2004	Paid during year	48,888	64,214	230,713	294,927						
	UCAE, end of year	64,026	264,184	170,505	434,689						
	IBNR, end of year	22,051	41,757	11,108	52,865						
	Ratio: excess (deficiency)		13.02%								
2005	Paid during year	9,125	28,191	71,488	99,679	411,620	511,299				
	UCAE, end of year	49,542	224,947	78,000	302,947	325,355	628,302				
	IBNR, end of year	3,510	17,166	9,105	26,271	34,829	61,100				
	Ratio: excess (deficiency)		21.39%		12.03%						
2006	Paid during year	(469)	6,111	9,705	15,816	134,449	150,265	566,226	716,491		
	UCAE, end of year	38,520	94,412	59,435	153,847	153,011	306,858	479,298	786,156		
	IBNR, end of year	2,557	7,830	4,406	12,236	8,508	20,744	41,046	61,790		
	Ratio: excess (deficiency)		52.82%		42.25%		30.68%				
2007	Paid during year	891	5,315	4,909	10,224	19,682	29,906	197,103	227,009	582,914	809,923
	UCAE, end of year	40,000	85,017	50,112	135,129	133,817	268,946	286,341	555,287	438,716	994,003
	IBNR, end of year	1,835	6,058	3,195	9,253	4,610	13,863	15,726	29,589	37,746	67,335
	Ratio: excess (deficiency)	27.70%	54.20%	23.24%	44.60%	18.78%	32.84%	4.07%	4.25%		

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3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

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 which 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. The retention programs used by the company are summarized below:

a) The retention limit or maximum exposure on insurance policies for all facultative reinsurance treaties for the company range between $720,000 and $10,000,000.

b) The company's main treaty arrangements are as follows:

(i) Property and allied perils 60%:40% Quota Share of premiums i.e. 60% ceded premiums and 40% retention.
(ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US$150,000 for any one loss or event.
(iii) Catastrophe excess of loss treaty which covers losses in various layers, the maximum of which is US$10,750,000 for any one event.

c) The company insures with several reinsurers. Of significance are Munich Reinsurance Company, Munich, Federal Republic of Germany and Swiss Reinsurance Company, Ontario, Canada. All other reinsurers carry lines under 10%.

d) The amount of reinsurance recoveries recognised during the period is as follows:

	2007 $'000	2006 $'000
Property	305,608	202,852
Motor	8,543	1,752
Marine	4,327	(14,773)
Liability	6,568	3,190
Pecuniary loss	4,216	(551)
Personal accident	84	84
	329,346	192,554

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk

The company is exposed to financial risk through its financial assets, reinsurance assets and insurance 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 are interest rate risk, market risk, cash flow risk, currency 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 and market risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the company's financial performance.

(i) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is the most important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers and investment activities.

The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit review process

The company has established a credit committee involving regular analysis of the ability of customers and other counterparties to meet repayment obligations.

(i) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The committee assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

(ii) Premium and other receivables

Management utilises periodic reports to assist in monitoring any premiums that are overdue. Where necessary, cancellation of policies is effected for amounts deemed uncollectible. Internal audit makes regular reviews to assess the degree of compliance with company procedures on credit.

(iii) Investments

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

Maximum exposure to credit risk

	2007 **$'000**	**2006** **$'000**
Credit risk exposures are as follows:		
Recoverable from reinsurers	1,223,456	897,877
Investments	2,347,605	1,982,353
Due from agents, brokers & policyholders	293,390	255,785
Cash and cash equivalents	533,895	551,253
Due from parent company	1,207	33
Other receivables	25,938	12,150
	4,425,491	3,699,451

The above table represents a worst case scenario of credit risk exposure to the company at 31 December 2007 and 2006.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Aging analysis of premium receivables past due but not impaired:

Premium receivables that are less than two months past due are not considered impaired. As of 31 December 2007, premium receivables of $53,501,000 (2006 - $130,936,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2007 $'000	2006 $'000
61 to 90 days	27,035	41,456
More than 90 days	26,466	89,480
	53,501	130,936

Premium receivables

The following table summarises the company's credit exposure for premium receivables at their carrying amounts, as categorised by the brokers and direct business:

	2007 $'000	2006 $'000
Agents & Brokers	183,157	162,316
Direct	80,939	62,845
	264,096	225,161
Claims recovery	33,315	34,645
	297,411	259,806
Less: Provision for credit losses	(4,021)	(4,021)
	293,390	255,785

The majority of premium receivables are receivable from customers and brokers in Jamaica.

Jamaica International Insurance Co Limited

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Debt securities

The following table summarises the company's credit exposure for debt securities at their carrying amounts, as categorised by issuer:

	2007 $'000	2006 $'000
Government of Jamaica	2,221,820	2,238,206
Corporate	62,365	59,693
Other	487,314	158,246
	2,771,499	2,456,145

(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, as carried out within the company and monitored by the Finance Department, 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 and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investment;

(v) Monitoring balance sheet liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;

(vi) Managing the concentration and profile of debt maturities.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Liquidity risk management process (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable of the company's financial liabilities based on contractual repayment obligations.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2007:						
Borrowings	27,610	-	-	-	-	27,610
Insurance reserves	131,806	1,595,528	1,358,050	-	-	3,085,384
Due to reinsurers	70,579	15,285	97,757	-	-	183,621
Other payables	-	74,790	-	-	-	74,790
Total financial liabilities (contractual maturity dates)	229,995	1,685,603	1,455,807	-	-	3,371,405

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2006:						
Borrowings	5,539	-	-	-	-	5,539
Insurance reserves	110,531	1,173,116	1,138,635	-	-	2,422,282
Due to reinsurers	196,532	108,772	-	-	-	305,304
Other payables	-	61,440	-	-	-	61,440
Total financial liabilities (contractual maturity dates)	312,602	1,343,328	1,138,635	-	-	2,794,565

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Assets available to meet all of the liabilities and to cover financial liabilities include cash and bank balances and investment securities. The company is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from parent company and other financing institutions.

(iii) Market risk

The company takes on exposure to market risks, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Finance department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

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 risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The company further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

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. The company ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

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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 exposure to foreign currency exchange rate risk at 31 December.

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2007:			
Financial Assets			
Recoverable from reinsurers	719,515	503,941	1,223,456
Investments	1,734,491	613,114	2,347,605
Due from agents, brokers & policyholders	242,443	50,947	293,390
Cash & cash equivalents	293,996	239,899	533,895
Due from parent company	1,207	-	1,207
Other receivables	25,938	-	25,938
Total financial assets	3,017,590	1,407,901	4,425,491
Financial Liabilities			
Borrowings	27,610	-	27,610
Insurance reserves	2,558,335	527,049	3,085,384
Due to reinsurers	99,042	84,579	183,621
Other payables	66,352	8,438	74,790
Total financial liabilities	2,751,339	620,066	3,371,405
Net financial position	266,251	787,835	1,054,086

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Notes to the Financial Statements
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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iv) Currency risk (continued)

Concentrations of currency risk (continued)

	Jamaican$ J$'000	US$ J$'000	Total J$'000
At 31 December 2006:			
Financial Assets			
Recoverable from reinsurers	756,707	141,170	897,877
Investments	1,408,596	573,757	1,982,353
Due from agents, brokers & policyholders	208,234	47,551	255,785
Cash & cash equivalents	382,903	168,350	551,253
Due from parent company	33	-	33
Other receivables	10,337	1,813	12,150
Total financial assets	2,766,810	932,641	3,699,451
Financial Liabilities			
Borrowings	5,539	-	5,539
Insurance reserves	2,274,424	147,858	2,422,282
Due to reinsurers	211,181	94,123	305,304
Other payables	59,209	2,231	61,440
Total financial liabilities	2,550,353	244,212	2,794,565
Net financial position	216,457	688,429	904,886

Foreign currency sensitivity

The following tables indicate the currencies to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes investment securities, premium and other receivables and US-dollar denominated borrowings. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	% Change in Currency Rate 2007	Effect on Net Profit 2007 $'000	Effect on Equity 2007 $'000	% Change in Currency Rate 2006	Effect on Net Profit 2006 $'000	Effect on Equity 2006 $'000
Currency:						
USD	5%	39,392	39,392	5%	34,421	34,421

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(v) Interest rate risk

Interest rate risk is the risk that the value of 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.

The following tables summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 December 2007:							
Financial Assets							
Recoverable from reinsurers	-	-	-	-	-	1,223,456	1,223,456
Investments	380,308	371,246	888,907	331,696	333,727	41,721	2,347,605
Due from agents, brokers & policyholders	-	-	-	-	-	293,390	293,390
Cash & cash equivalents	533,895	-	-	-	-	-	533,895
Due from parent company	-	-	-	-	-	1,207	1,207
Other receivables	-	-	-	-	-	25,938	25,938
Total financial assets	914,203	371,246	888,907	331,696	333,727	1,585,712	4,425,491
Financial Liabilities							
Borrowings	27,610	-	-	-	-	-	27,610
Insurance reserves	-	-	-	-	-	3,085,384	3,085,384
Due to reinsurers	-	-	-	-	-	183,621	183,621
Other payables	-	-	-	-	-	74,790	74,790
Total financial liabilities	27,610	-	-	-	-	3,343,795	3,371,405
Total interest repricing gap	886,593	371,246	888,907	331,696	333,727	(1,758,083)	1,054,086

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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 2006:							
Financial Assets							
Recoverable from reinsurers	-	-	-	-	-	897,877	897,877
Investments	110,722	491,643	946,502	90,094	312,451	30,941	1,982,353
Due from agents, brokers & policyholders	-	-	-	-	-	255,785	255,785
Cash & cash equivalents	551,253	-	-	-	-	-	551,253
Due from parent company	-	-	-	-	-	33	33
Other receivables	-	-	-	-	-	12,150	12,150
Total financial assets	661,975	491,643	946,502	90,094	312,451	1,196,786	3,699,451
Financial Liabilities							
Borrowings	5,539	-	-	-	-	-	5,539
Insurance reserves	-	-	-	-	-	2,422,282	2,422,282
Due to reinsurers	-	-	-	-	-	305,304	305,304
Other payables	-	-	-	-	-	61,440	61,440
Total financial liabilities	5,539	-	-	-	-	2,789,026	2,794,565
Total interest repricing gap	656,436	491,643	946,502	90,094	312,451	(1,592,240)	904,886

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's profit and loss account and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income. The sensitivity of stockholders' equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis. It should be noted that movements in these variables are non-linear.

	Effect on Net Profit 2007 $'000	Effect on Equity 2007 $'000	Effect on Net Profit 2006 $'000	Effect on Equity 2006 $'000
Change in basis points:				
-1%	(5,160)	681	-	671
+1%	5,160	(296)	-	(439)

4. Capital Management

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) To comply with the capital requirements set by the regulators of the insurance markets 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 for other stakeholders; and

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

Capital adequacy is managed at the operating company level. It is calculated by the Compliance Officer and reviewed by executive management, the audit committee and the board of directors. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements. The primary measure used to assess capital adequacy is the Minimum Asset Test. This information is required to be filed with the Financial Services Commission (FSC) on an annual basis. The minimum standard recommended by the regulators for companies is a MAT of 120% (2006 – 110%). As at the year end the MAT for the company is as follows:

	Actual	Required	Actual	Required
	2007	**2007**	**2006**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
MAT	**134.61%**	**120.00%**	**137.20%**	**110.00%**

5. 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.

6. 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 allow 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.

7. 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.

8. Cash and Cash Equivalents

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

	2007 $'000	2006 $'000
Cash at bank and in hand	68,628	46,867
Short term investments (Note 9)	465,267	504,386
	533,895	551,253
Bank overdraft (Note 18)	(27,610)	(5,539)
	506,285	545,714

Short term investments are debt instruments with an original maturity of up to 90 days, which are classified as cash and cash equivalents. Short term investments include interest receivable of $3,892,000 (2006 – $1,398,000).

The effective weighted average interest rates on short term investments are as follows:

	2007 %	2006 %
Jamaican dollar denominated	12.48	11.81
United States dollar denominated	6.28	6.25

9. Investments

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

	Years to Maturity				Total	Total
	Within 1 year $'000	1 to 5 years $'000	5 to 10 years $'000	Over 10 years $'000	2007 $'000	2006 $'000
Government of Jamaica	1,556,397	331,696	128,343	205,384	2,221,820	2,238,206
Corporate	62,365	-	-	-	62,365	59,693
Other	487,314	-	-	-	487,314	158,246
	2,106,076	331,696	128,343	205,384	2,771,499	2,456,145
Short term investments (Note 8)					(465,267)	(504,385)
					2,306,232	1,951,760
Quoted equity securities					40,727	29,947
Unquoted equity securities					646	646
					2,347,605	1,982,353

9. Investments (Continued)

Investments include interest receivable of $62,361,000 (2006 – $50,205,000).

Securities with an original maturity of up to 90 days are regarded as short term investments and have been included in cash and cash equivalents (Note 8).

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.

10. Due from Agents, Brokers and Policyholders

	2007 $'000	2006 $'000
Insurance receivables –		
Agents and brokers	183,157	162,316
Policyholders	80,939	62,845
Claims recovery	33,315	34,645
	297,411	259,806
Less: Provision for impairment	(4,021)	(4,021)
	293,390	255,785

11. Other Receivables

	2007 $'000	2006 $'000
Staff loans	1,902	2,473
Other	24,036	9,677
	25,938	12,150

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12. Fixed Assets

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2007		
At Cost or Valuation -					
At 1 January 2007	214,215	99,410	76,889	16,401	406,915
Additions	199	3,301	15,819	3,090	22,409
Disposals	-	-	(1,186)	(3,067)	(4,253)
Revaluation	-	-	-	-	-
At 31 December 2007	214,414	102,711	91,522	16,424	425,071
Depreciation -					
At 1 January 2007	237	97,762	26,490	7,047	131,536
Charge for the year	2,566	281	7,698	4,326	14,871
On disposals	-	-	(908)	(2,287)	(3,195)
Revaluation	-	-	-	-	-
At 31 December 2007	2,803	98,043	33,280	9,086	143,212
Net Book Value -					
31 December 2007	211,611	4,668	58,242	7,338	281,859
			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

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 $85,972,000 (2006 – $85,774,000) with accumulated depreciation of $13,424,000 (2006 – $12,469,000).

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13. 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	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Amounts recognised in the balance sheet	90,836	95,705	(71,406)	(55,801)
Amounts recognised in the profit and loss account (Note 24)	(5,653)	17,530	(16,873)	(13,580)

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

	Pension benefits		Other retirement benefits	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Fair value of plan assets	251,311	224,360	-	-
Present value of obligations	(168,009)	(173,175)	(77,403)	(78,808)
	83,302	51,185	(77,403)	(78,808)
Unrecognised actuarial losses	7,534	44,520	5,997	23,007
	90,836	95,705	(71,406)	(55,801)

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

	Pension benefits		Other retirement benefits	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Current service cost, net of employee contributions	(6,986)	(3,447)	(6,998)	(4,103)
Interest cost	(22,326)	(17,786)	(10,221)	(7,453)
Expected return on plan assets	24,852	62,556	-	-
Actuarial (losses)/gains recognised	(1,193)	(23,793)	346	(2,024)
	(5,653)	17,530	(16,873)	(13,580)

The actual return on plan assets was a gain of $23,813,000 (2006 – loss of $300,577,000).

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13. Retirement Benefits (Continued)

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

	Pension benefits		Other retirement benefits	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of year	(173,175)	(131,184)	(78,808)	(57,510)
Current service cost	(16,418)	(12,222)	(6,998)	(4,103)
Interest cost	(22,326)	(17,786)	(10,221)	(7,453)
Benefits paid	7,078	2,235	1,268	3,977
Actuarial gains/(losses)	36,832	(14,218)	17,356	(13,719)
At end of year	(168,009)	(173,175)	(77,403)	(78,808)

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

	Pension benefits		Other retirement benefits	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
At beginning of year	224,360	557,579	-	-
Employer contributions	784	734	-	-
Employee contributions	9,432	8,775	-	-
Expected return on plan assets	24,852	62,556	-	-
Benefits paid	(7,078)	(2,235)	-	-
Actuarial losses	(1,039)	(403,049)	-	-
At end of year	251,311	224,360	-	-

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

	2007	**2006**
	%	**%**
Equity	27	28
Debt	2	3
Government securities	57	63
Other	14	6
	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 2008 amount to $850,000.

13. Retirement Benefits (Continued)

The principal actuarial assumptions used were as follows:

	2007	2006
Discount rate	13.00%	12.00%
Long term inflation rate	8.75%	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	10.00%	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 assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of $7,754,000/($5,322,000), and an increase/(decrease) in the defined benefit obligation of $34,679,000/($26,098,000).

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:

	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets	251,311	224,360	557,579	177,747	139,200
Defined benefit obligation	(168,009)	(173,175)	(131,184)	(102,294)	(66,302)
Surplus	83,302	51,185	426,395	75,453	72,898
Experience adjustments –					
Fair value of plan assets	(1,039)	(363,133)	354,133	18,468	16,636
Defined benefit obligation	(4,260)	(660)	11,252	4,699	5,358

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

	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Defined benefit obligation	(77,403)	(78,808)	(57,510)	(47,569)	(28,989)
Experience adjustments	(4,473)	269	825	3,033	(1,656)

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14. Intangible Asset

The company 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:

	2007 $'000	2006 $'000
Carrying amount of insurance portfolio acquired	549,816	589,089
Less: Amortisation	(39,273)	(39,273)
	510,543	549,816

15. Insurance Reserves

	2007 $'000	2006 $'000
Gross –		
Claims outstanding	1,501,162	1,093,363
Unearned premiums	1,503,828	1,249,587
Unearned commission	77,846	76,784
Claims equalisation	2,548	2,548
	3,085,384	2,422,282
Reinsurance ceded –		
Claims outstanding	439,824	245,417
Unearned premiums	783,632	652,460
	1,223,456	897,877
Net –		
Claims outstanding	1,061,338	847,946
Unearned premiums	720,196	597,127
Unearned commission	77,846	76,784
Claims equalisation	2,548	2,548
	1,861,928	1,524,405

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15. 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 2007, 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 27 March 2007, the actuary found that the amount of policy and claims liabilities represented in the balance sheet at 31 December 2007 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:

	2007 $'000	2006 $'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	1,093,363	1,177,570
Reinsurance ceded	(245,417)	(488,167)
	847,946	689,403
Movement during the year –		
Claims incurred, including IBNR	1,023,315	875,035
Claims paid	(809,923)	(716,492)
	213,392	158,543
Net reserves for claims outstanding at end of year	1,061,338	847,946
Reinsurance ceded	439,824	245,417
Gross reserves for claims outstanding at end of year	1,501,162	1,093,363

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 reserve 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.

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16. Other Payables

	2007 $'000	2006 $'000
Accruals	45,309	50,131
Other	29,481	11,309
	74,790	61,440

17. 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:

	2007 $'000	2006 $'000
At beginning of year	79,684	53,884
Tax (credited)/charged to the profit and loss account (Note 25)	(26,532)	9,701
Tax charged to equity – revaluation of fixed assets	-	16,099
At end of year	53,152	79,684

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 2007	35,752	31,902	17,201	28,894	113,749
Tax (credited)/charged to the profit and loss account	-	(1,623)	4,883	(24,225)	(20,965)
Tax charged to equity	-	-	-	-	-
At 31 December 2007	35,752	30,279	22,084	4,669	92,784

Deferred tax assets	**Other $'000**	**Accelerated depreciation $'000**	**Retirement benefits $'000**	**Total $'000**
At 1 January 2007	-	15,465	18,600	34,065
Tax credited/(charged) to the profit and loss account	2,150	(1,785)	5,202	5,567
At 31 December 2007	2,150	13,680	23,802	39,632

These balances include the following:

	2007 $'000	2006 $'000
Deferred tax liabilities to be settled after more than 12 months	66,031	67,654
Deferred tax assets to be recovered after more than 12 months	37,482	34,065

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18. Borrowings

	2007 $'000	2006 $'000
Bank overdraft	27,610	5,539

The company does not have an overdraft facility. The year end bank overdraft balance was due to unpresented cheques.

19. Share Capital

	2007 $'000	2006 $'000
Authorised, issued and fully paid -		
862,064,000 Ordinary shares	862,064	862,064
3,130,000 Preference shares	203,012	203,012
	1,065,076	1,065,076

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

(a) The 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.

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20. Capital and Fair Value Reserves

	2007 $'000	2006 $'000
Realised gain on sale of investments	824	824
Unrealised gain on the revaluation of available-for-sale investments	103,323	96,735
Unrealised surplus on the revaluation of fixed assets	76,482	76,482
	180,629	174,041

21. Other Income

	2007 $'000	2006 $'000
Interest earned	284,750	251,301
Gain on disposal of fixed assets	680	2,039
Dividend income	1,243	1,173
Net foreign exchange gains	14,006	24,948
Miscellaneous income	35,689	21,370
Profit commission	13,041	-
Rental income, net of depreciation	17,402	14,476
	366,811	315,307

22. Finance Costs

	2007 $'000	2006 $'000
Interest paid -		
Urban Renewal Bond	-	300
Finance lease arrangements	-	32
	-	332

23. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2007 $'000	2006 $'000
Advertising and public relations	54,078	49,572
Allocation of central office expenses paid to parent company	33,120	30,540
Amortisation of intangible asset	39,273	39,273
Auditor's remuneration	2,400	2,225
Bad debt expense	1,012	152
Bank charges	5,553	4,138
Data processing	29,746	23,559
Depreciation	14,871	13,251
Directors' fees	1,700	1,316
Occupancy - rent, utilities, insurance, security	31,205	26,591
Office expenses	14,353	12,620
Professional fees	6,088	4,596
Registration fees and stamp duty	10,455	17,461
Repairs and maintenance	12,562	9,352
Staff costs (Note 24)	260,987	217,460
Underwriting expenses –		
Motor	16,051	18,394
Property	2	830
	533,456	471,330

24. Staff Costs

	2007 $'000	2006 $'000
Wages and salaries	184,014	176,027
Statutory contributions	17,662	16,741
Pension – defined benefit (Note 13)	5,653	(17,530)
Other retirement benefits (Note 13)	16,873	13,580
Other	36,785	28,642
	260,987	217,460

The number of persons employed full-time by the company at year end was 133 (2006 – 106).

25. Taxation

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

	2007 $'000	2006 $'000
Current taxation	91,963	81,734
Deferred taxation (Note 17)	(26,532)	9,701
	65,431	91,435

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

	2007 $'000	2006 $'000
Profit before taxation	216,327	250,984
Tax calculated at a tax rate of 33⅓%	72,109	83,661
Adjusted for the effects of –		
Tax-free interest income –		
Current year	(5,238)	(5,451)
Adjustment to prior year	-	6,954
Tax-free rental income under the Urban Renewal Act	(4,012)	(6,436)
Tax-free dividend income	(414)	-
Dividend paid on preference shares not subject to tax	(5,901)	-
Amortisation of intangible assets	13,091	13,091
Other expenses not deductible for tax purposes	980	-
Adjustment to prior year deferred tax	(4,973)	-
Other charges and allowances	(211)	(384)
	65,431	91,435

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26. Related Party Transactions and Balances

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

	2007 $'000	2006 $'000
Cash and cash equivalents –		
Fellow subsidiaries	154,869	149,028
Parent company	348	348
	155,217	149,376
Investments – Fellow subsidiaries	116,500	-
Due from agents, brokers and policyholders –		
Fellow subsidiaries	60,043	62,086
Parent company	526	601
	60,569	62,687
Due to reinsurers – Fellow subsidiaries	(6,293)	(12,880)
Due from parent company	1,207	33
Other payables – Fellow subsidiary	1,904	-
Borrowings –		
Fellow subsidiary	27,610	5,539

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

	2007 $'000	2006 $'000
Staff costs –		
Wages and salaries	20,285	29,395
Statutory contributions	1,658	2,298
Fees as directors	1,700	1,316
Gross premiums written	1,541	1,732

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26. Related Party Transactions and Balances (Continued)

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

	2007 $'000	2006 $'000
Gross premiums written –		
Fellow subsidiaries	191,759	257,239
Parent company	87,980	47,084
	279,739	304,323
Commission received – Fellow subsidiaries	5,273	6,201
Commission paid – Fellow subsidiaries	93,839	96,216
Administration expenses – Parent company	5,358	4,984
Other operating expenses –		
Allocation of central office expenses paid to parent company	33,120	30,540
Interest earned –		
Fellow subsidiaries	17,903	1,144
Rental income –		
Fellow subsidiaries	4,500	4,933
Parent company	12,036	19,308
	16,536	24,241
Interest expense –		
Parent company	-	300
Group pension plan	-	32
	-	332

27. Prior Year Adjustment

The retained earnings as at 1 January 2006 was adjusted by $21,194,000 to account for an over provision in the income tax charge for the year ended 31 December 2005. The taxation payable was also adjusted to account for this overstatement in the tax provision.

Jamaica International Insurance Company Limited

Underwriting Revenue Account

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Liability	M.A.T.	Motor	Pecuniary loss	Personal accident	Property	2007 Total	2006 Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income								
Gross premiums	103,377	38,994	1,481,481	20,999	1,922	2,164,086	3,810,859	3,268,491
Reinsurance premiums	(16,095)	(30,920)	(18,998)	(15,405)	(1,248)	(2,044,778)	(2,127,444)	(1,888,755)
Excess reinsurance premiums	(2,618)	-	(43,905)	-	-	(54,370)	(100,893)	(101,236)
	84,664	8,074	1,418,578	5,594	674	64,938	1,582,522	1,278,500
Reinsurance commissions	1,863	8,139	1,813	3,866	398	176,344	192,423	170,305
	86,527	16,213	1,420,391	9,460	1,072	241,282	1,774,945	1,448,805
Expenditure								
Claims incurred	48,378	5,033	925,864	8,883	109	364,394	1,352,661	1,067,589
Reinsurance recoveries	(6,568)	(4,327)	(8,543)	(4,216)	(84)	(305,608)	(329,346)	(192,554)
	41,810	706	917,321	4,667	25	58,786	1,023,315	875,035
Unearned premium – net increase	7,138	445	110,369	(1,061)	(97)	6,275	123,069	(52,817)
Commission paid	10,549	1,295	114,291	2,305	75	117,074	245,589	219,248
Underwriting expenses	-	-	16,051	-	-	2	16,053	19,224
Administration expenses	12,323	4,648	176,604	2,503	229	257,975	454,283	401,959
	71,820	7,094	1,334,636	8,414	232	440,112	1,862,309	1,462,649
Underwriting Loss	14,707	9,119	85,755	1,046	840	(198,830)	(87,364)	(13,844)

Jamaica International Insurance Company Limited

Administration Expenses

Year ended 31 December 2007

(expressed in Jamaican dollars unless otherwise indicated)

	2007 $'000	2006 $'000
Advertising and public relations	24,078	29,965
Amortisation of intangible assets	39,273	39,273
Audit fees	2,400	2,225
Bad debts, net of recoveries	1,012	152
Bank charges	5,553	4,138
Data processing	29,746	23,559
Depreciation	14,871	13,251
Directors' fees	1,700	1,316
Electricity	6,458	7,632
Entertainment	734	584
Insurance	5,121	3,786
Miscellaneous	5,532	5,007
Motor vehicle	6,034	5,243
Office rental	3,196	1,973
Printing and stationery	4,481	4,524
Professional fees	6,088	4,596
Registration fees	9,765	9,408
Repairs and maintenance	6,528	4,109
Security	3,033	2,967
Staff costs	260,987	217,460
Stamp duty	690	8,053
Telephone, telex and postage	13,397	10,233
Travelling	3,606	2,505
	454,283	401,959