

**Jamaica International Insurance  
Company Limited**

**Financial Statements  
31 December 2009**

# Jamaica International Insurance Company Limited

Index

31 December 2009

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I have examined the financial condition and valued the policy and claims liabilities of JIC for its balance sheet as at December 31, 2009 and the corresponding change in the policy and claims liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica. I have relied upon PriceWaterhouseCoopers for the substantial accuracy of the records and information concerning other liabilities, as certified in the attached statement.

The results of my valuation together with amounts carried in the Annual Return are the following:

Claims Liabilities	Carried in Annual Return	Actuary's Estimate
Direct unpaid claims and adjustment expenses:	J\$1,787,301	J\$1,787,301
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	J\$1,787,301	J\$1,787,301
Ceded unpaid claims and adjustment expenses:	J\$465,630	J\$465,630
Other amounts to recover:	0	0
Other net liabilities:	0	0
<b>Net unpaid claims and adjustment expenses:</b>	<b>J\$1,321,671</b>	<b>J\$1,321,671</b>

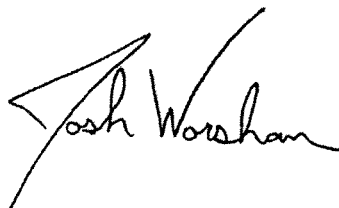
Policy Liabilities	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:	N/A	J\$666,459
Net policy liabilities in connection with unearned premiums:	N/A	J\$584,369
Gross unearned premiums:	J\$1,531,055	N/A
Net unearned premiums:	J\$805,299	N/A
Premium deficiency:	0	0
Other net liabilities:	0	0

In my opinion:

- (i) The methods and procedures used in the verification of the data are sufficient and reliable and fulfill acceptable standards of care;
- (ii) The valuation of policy and claims liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Commission;
- (iii) The methods and assumptions used to calculate the policy and claims liabilities are appropriate to the circumstances of the company and of the said policies and claims;
- (iv) The amount of policy and claims liabilities represented in the balance sheet of Jamaica International Insurance Company Limited makes proper provision for the future payments under the company's policies and meet the requirements of the Insurance Act and other appropriate regulations of Jamaica;
- (v) A proper charge on account of these liabilities has been made in the statement of operations;
- (vi) There is sufficient capital available to meet the solvency standards as established by the Commission

Josh Worsham, FCAS, MAAA

Name of Appointed Actuary



Signature of Appointed Actuary

March 2010  
Date

## 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 53, which comprise the statement of financial position as of 31 December 2009 and the profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Members of Jamaica International Insurance Company Limited  
Independent Auditors' Report  
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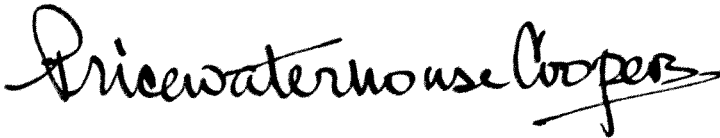
**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2009, 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

29 March 2010  
Kingston, Jamaica

# Jamaica International Insurance Company Limited

## Statement of Financial Position

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>ASSETS</b>			
Cash and short term investments	8	256,710	754,747
Investments	9	2,938,500	2,433,348
Due from agents, brokers and policyholders	10	446,161	431,837
Recoverable from reinsurers and coinsurers	11	1,257,254	1,694,783
Deferred policy acquisition costs		117,292	122,873
Other receivables	12	37,716	18,126
Due from parent company	13	50	-
Taxation recoverable		70,396	42,062
Fixed assets	14	388,966	342,991
Intangible asset	15	431,999	471,271
Retirement benefit asset	16	41,977	90,826
		<u>5,987,021</u>	<u>6,402,864</u>

# Jamaica International Insurance Company Limited


Statement of Financial Position (Continued)

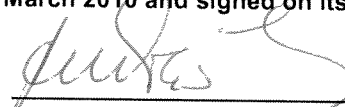
31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Bank overdraft	17	15,030	25,146
Due to reinsurers		113,476	399,818
Insurance reserves	18	3,420,252	3,754,719
Other payables	19	110,318	100,236
Due to parent company	13	-	972
Deferred tax liabilities	20	116,010	119,545
Retirement benefit obligations	16	98,159	80,959
		<u>3,873,245</u>	<u>4,481,395</u>
<b>Shareholders' Equity</b>			
Share capital	21	1,065,076	1,065,076
Capital and fair value reserves	22	132,853	52,745
Share option reserve	23	11,021	-
Retained earnings		904,826	803,648
		<u>2,113,776</u>	<u>1,921,469</u>
		<u>5,987,021</u>	<u>6,402,864</u>

Approved for issue on behalf of the Board of Directors on 29 March 2010 and signed on its behalf by:

  
 Peter Moss-Solomon Chairman

  
 Andrew C.H. Levy Managing Director

# Jamaica International Insurance Company Limited

## Statement of Comprehensive Income

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>Gross Premiums Written</b>		3,612,583	3,467,770
Reinsurance ceded		(1,964,536)	(1,733,360)
Net premiums written		1,648,047	1,734,410
Change in unearned premiums, net		9,690	(94,775)
<b>Net Premiums Earned</b>		1,657,737	1,639,635
Commission income		214,742	194,866
Commission expense		(272,400)	(261,922)
Claims expense		(1,222,374)	(1,146,366)
Underwriting expenses		(22,773)	(23,545)
Administration expenses		(676,531)	(551,619)
<b>Underwriting Loss</b>		(321,599)	(148,951)
Other income	24	704,633	506,618
Other operating expenses		(129,921)	(116,560)
<b>Profit before Taxation</b>		253,113	241,107
Taxation	27	(64,651)	(82,243)
<b>Profit for the Year</b>		188,462	158,864
<b>Other Comprehensive Income:</b>			
Revaluation gains on fixed assets	14	42,318	50,749
Deferred taxation	19	(9,853)	(15,333)
Revaluation gains on fixed assets net of taxes		32,465	35,416
Fair value gains/(losses) on available-for-sale financial assets		47,643	(163,300)
Other comprehensive income, net of taxes		80,108	(127,884)
<b>Total Comprehensive Income</b>		268,570	30,980



# Jamaica International Insurance Company Limited

## Statement of Changes in Equity

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital and Fair Value Reserves	Share Option Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2008	1,065,076	180,629	-	666,188	1,911,893
Profit for the year	-	-	-	158,864	158,864
Other comprehensive income:					
Fair value gains on fixed assets, net of taxes	-	35,416	-	-	35,416
Fair value losses on available -for-sale financial assets	-	(163,300)	-	-	(163,300)
Total other comprehensive income	-	(127,884)	-	-	(127,884)
Total comprehensive income	-	(127,884)	-	158,864	30,980
Transactions with owners:					
Interest on preference shares	-	-	-	(21,404)	(21,404)
<b>Balance at 31 December 2008</b>	<b>1,065,076</b>	<b>52,745</b>	<b>-</b>	<b>803,648</b>	<b>1,921,469</b>
Profit for the year	-	-	-	188,462	188,462
Other comprehensive income:					
Fair value gains on fixed assets net of taxes	-	32,465	-	-	32,465
Fair value losses on available-for-sale financial assets	-	47,643	-	-	47,643
Total other comprehensive income	-	80,108	-	-	80,108
Total comprehensive income	-	80,108	-	188,462	268,570
Employee share option scheme:					
Value of services received	-	-	11,021	-	11,021
Transactions with owners:					
Interest on preference shares	-	-	-	(21,284)	(21,284)
Dividends	-	-	-	(66,000)	(66,000)
Total transactions with owners	-	-	-	(87,284)	(87,284)
<b>Balance at 31 December 2009</b>	<b>1,065,076</b>	<b>132,853</b>	<b>11,021</b>	<b>904,826</b>	<b>2,113,776</b>

# Jamaica International Insurance Company Limited

## Statement of Cash Flows

Year ended 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2009 \$'000	2008 \$'000
<b>Cash Flows from Operating Activities</b>			
Premiums received		3,598,259	3,296,008
Reinsurance paid		(2,250,878)	(1,524,637)
Commissions received		220,323	219,599
Commissions paid		(273,066)	(285,658)
Claims paid	18	(1,083,877)	(1,024,530)
Rent received		4,928	11,031
Other receipts		143,302	50,618
Underwriting, administration and other operating expenditure paid		(708,402)	(623,822)
Taxation paid		(106,373)	(73,255)
Cash (used in)/provided by operating activities		<u>(455,784)</u>	<u>45,354</u>
<b>Cash Flows from Investing Activities</b>			
Interest received		438,650	334,092
Investments		(383,616)	(148,897)
Additions to fixed assets	14	(29,428)	(30,919)
Proceeds on disposal of fixed assets		1,445	3,862
Cash provided by investing activities		<u>27,051</u>	<u>154,138</u>
<b>Cash Flows from Financing Activities</b>			
Interest on preference shares paid		(42,688)	-
Ordinary dividends paid		(66,000)	-
Cash used in financing activities		<u>(108,688)</u>	<u>-</u>
		(537,421)	203,492
Exchange gain on cash and cash equivalents		49,500	19,824
(Decrease)/increase in cash and cash equivalents		<u>(487,921)</u>	<u>223,316</u>
Cash and cash equivalents at beginning of year		729,601	506,285
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>8</b>	<u><u>241,680</u></u>	<u><u>729,601</u></u>

# Jamaica International Insurance Company Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 1. Identification and Activities

- (a) Jamaica International Insurance Company Limited is a limited liability company incorporated and domiciled in Jamaica. The company is a wholly-owned subsidiary of GraceKennedy Financial Group Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The company has also issued preference shares, which are held by fellow subsidiary, GraceKennedy (St. Lucia) Limited.
- (b) The registered office of the company, and its ultimate parent, is 73 Harbour Street, Kingston, Jamaica.

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. The company issues insurance contracts in territories outside of Jamaica through the following brokers; First Global Insurance Brokers Limited (Turks & Caicos) and Cabrits Insurance Agency (Commonwealth of Dominica).

### 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 management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

#### ***Accounting pronouncements effective in the current year which are relevant to the company's operations***

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year, which are immediately relevant to its operations.

**IAS 1 (Revised), 'Presentation of financial statements' (effective 1 January 2009).** The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statement of financial positions at the end of the current period and comparative period. The company has applied IAS 1 (Revised) from 1 January 2009 and has elected to present one performance statement. Adoption has resulted in a change in financial statement presentation only and has no impact on the company's earnings.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

*Accounting pronouncements effective in the current year which are relevant to the company's operations*

**IFRS 7 (Amendment), 'Financial Instruments- Disclosures' (effective 1 January 2009).** The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. Adoption has resulted in additional disclosures only, and had no impact on the company's earnings.

**IFRS 2 (Amendment), 'Share-based payment' (effective 1 January 2009).** The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Management has assessed the standard and has determined that there is no material impact on the company's financial statements.

**IAS 19 (Amendment), 'Employee benefits' (effective 1 January 2009).** The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment. It also clarifies that an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets was also amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The amendment also deletes guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. Management has determined that adoption has no material impact on the company's financial statements.

**IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective 1 January 2009).** The amendment is part of the IASB's annual improvement project published in May 2008. It clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in a cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. The amendment clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. Management has determined that adoption has no material impact on the company's financial statements.

Certain other pronouncements are mandatory for the current and future accounting periods but are not immediately relevant to the company's operations. Their adoption has had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

#### *Accounting pronouncements that are not yet effective, and have not been early adopted*

At the date of authorisation of these financial statements, the following standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2010 or later periods, and have been determined to be relevant to the company's operations. These have not been early adopted by the company.

#### **IFRS 9, 'Financial instruments'. (effective for annual periods beginning on or after 1 January 2013).**

The standard addresses the principles for the financial reporting of financial assets to ensure that relevant and useful information is presented to users of financial statements. It replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The standard will eventually replace IAS 39 - Financial Instruments: Recognition and Measurement.

The standard is mandatory for accounting periods beginning on or after 1 January 2013, however earlier adoption is permitted. Management is assessing the impact of adoption of the standard on the company.

**IAS 24 (amendment), 'Related party disclosures'.** The amendment relaxes the disclosures of transactions between government-related entities and clarifies related party definition. The amendment is expected to have no impact on the company's financial statements.

Other pronouncements which were published but not yet effective have been determined to be:

- Relevant, but with no material impact on adoption; or
- Not relevant, with no impact on adoption; or
- Inconsequential classifications that will have no material impact when they come into effect.

### (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 profit or loss.

Translation differences resulting from changes in the amortised cost of foreign currency denominated monetary assets classified as available-for-sale are recognised in profit or loss. Other changes in the fair value of these assets are recognised in other comprehensive income. 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 profit or loss.

### (c) Financial instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, amounts due from or to policyholders, brokers, agents, reinsurers, other receivables, balances with 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.

# Jamaica International Insurance Company Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (d) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, 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 securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains and losses from investment securities'.

At each statement of financial position 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 profit or loss, is removed from equity and recognised in profit or loss. Impairment losses on equity instruments described as available for sale recognised in profit or loss are not reversed through profit or loss.

#### (f) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The company's insurance contracts are classified as short-term insurance contracts which include casualty and property insurance contracts. Casualty insurance contracts protect the company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employer's liability) and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (f) Insurance contracts (continued)

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risk at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before deductible commission.

Claims and loss adjustments expenses are charged to profit for the year as incurred based on estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the company. The company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company. Statistical analysis is used to estimate claims incurred but not reported, as well as the expected ultimate cost of more complex claims that may be affected by external factors.

### (g) Insurance receivables and payables

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

If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss.

### (h) Reinsurance ceded

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

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

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

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (i) 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 acquisitions are subsequently amortised as the premium is earned over the life of the contracts. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

### (j) 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. Historical cost includes expenditure directly attributable to the acquisition of the items.

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 profit or loss.

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 improvements	10 years
Furniture, fixtures and equipment	3 – 10 years
Motor vehicles	3 – 4 years

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

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



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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## 2. Significant Accounting Policies (Continued)

### (k) Intangible assets

Separately acquired intangible assets are assessed annually for indicators of impairment and are carried at cost less any accumulated amortisation and impairment. 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.

### (l) 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 is separately identifiable cash flows.

### (m) Insurance reserves

Under the Insurance Regulations, 2001, the company is required to actuarially value its insurance reserves annually. Consequently, claims incurred but not reported (IBNR) as well as the unexpired risk reserve have been independently actuarially determined for the current year. The remaining reserves are also reviewed by the actuary in determining the overall adequacy of the provision for the company's insurance liabilities.

#### (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 statement of financial position date, and is computed by applying the twenty-fourths method to gross written premiums.

#### (ii) Unearned commission

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

#### (iii) Claims incurred but not reported

The reserve for claims incurred but not reported (IBNR) 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 18). This calculation is done in accordance with the Insurance Act 2001.

#### (iv) 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 (insurance case reserves) and the appointed actuary (IBNR) on the basis of claims admitted and intimated.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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## 2. Significant Accounting Policies (Continued)

### (m) Insurance reserves (continued)

#### (vi) Unexpired risk reserve

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

### (n) Other payables

Other payables are stated at historical cost.

### (o) Income taxes

Taxation expense in the statement of comprehensive income comprises current and deferred tax charges. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or equity, respectively.

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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## 2. Significant Accounting Policies (Continued)

### (p) Employee benefits

#### (i) Pension obligations

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

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the statement of financial position 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 profit before tax over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in profit or loss, 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 retirement obligations

The company provides 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 profit or loss 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 statement of financial position 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 statement of financial position date are discounted to present value.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (p) Employee benefits (continued)

#### (v) Equity compensation benefits

The company participates in an equity-settled, share-based compensation plan with its ultimate parent company, GraceKennedy Limited. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital.

### (q) 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:

#### **Insurance contracts**

Gross premiums written are recognised on a pro-rated basis over the life of the policies written (Note 2 (f)). The portion of premiums written in the current year which relates to coverage in subsequent years is deferred as unearned premiums (Note 2(m)(i)).

Commissions payable on premium income and commissions receivable on reinsurance of risks are charged and credited, respectively, over the life of the policies.

#### **Interest income**

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

#### **Dividend income**

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

### (r) Dividends

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

# Jamaica International Insurance Company Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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### 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) Finance Department

This Department 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.

(ii) Investment and Loan Committee

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

(iii) Risk and Reinsurance Department

This Department is charged with developing the company's risk management framework and negotiating treaty arrangements, including assessing the credit worthiness of the reinsurers. They monitor the company's compliance with the risk policies and procedures, by way of audits conducted periodically.

(iv) 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.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk

The company issues contracts that transfer 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.

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.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk (continued)

Claims on insurance contracts are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a portion of the claims provision relates to IBNR claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

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

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

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

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

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

## 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:

	2009		2008	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property –				
Fire and consequential loss	438,075	3,983	348,975	4,230
Boiler and machinery	199,125	3,734	141,000	2,643
Engineering	265,500	4,978	211,500	3,966
Burglary, money and goods in transit	11,063	5,532	9,375	4,688
Glass and other	4,425	2,213	3,750	1,875
Liability	265,000	13,275	225,000	11,250
Marine, aviation and transport	22,500	1,875	13,200	600
Motor	5,000	5,000	5,000	5,000
Pecuniary loss –				
Fidelity	11,063	5,532	9,375	4,688
Surety/Bonds	150,000	30,000	150,000	30,000
Personal accident	19,913	9,956	11,250	5,625
Personal property	438,075	3,983	348,975	4,230



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk (continued)

#### ***Sensitivity Analysis of Actuarial 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:

- Claims inflation has remained relatively constant and there have been no material legislative changes in the Jamaican civil justice system that would cause claim inflation to increase dramatically.
- There is no latent environmental or asbestos exposure embedded in the company's loss history.
- The company's case reserving and claim payments rates have and will remain relatively constant.
- The overall development of claims costs gross of reinsurance is not materially different from the development of claims costs net of reinsurance. This assumption is supported by:
  - (a) The majority of the company's reinsurance program consists of proportional reinsurance agreements.
  - (b) The company's non-proportional reinsurance agreements consist primarily of high attachment points.
- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the Insurance Act, 2001.

For the Bornhuetter-Ferguson methods, the company has generally allowed a-priori loss ratios to remain the same as at previous evaluations. Management monitors these ratios at each review and will adjust if necessary, typically if long term loss ratios change or there is unexpected positive or negative development.

(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.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

## 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 the ultimate claims liability for accident years 2005 - 2008 has changed at successive year-end, up to 2009. Updated unpaid claims and adjustment expenses (UCAE) and IBNR estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

		2005	2005	2006	2006	2007	2007	2008	2008	2009
		and	and	and	and	and	and	and	and	and
		2005	2005	2006	2006	2007	2007	2008	2008	2009
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2005	Paid during year	411,620	511,299							
	UCAE, end of year	325,355	628,302							
	IBNR, end of year	34,829	61,100							
	Ratio: excess (deficiency)									
2006	Paid during year	134,449	150,265	566,226	716,491					
	UCAE, end of year	153,011	306,858	479,298	786,156					
	IBNR, end of year	8,508	20,744	41,046	61,790					
	Ratio: excess (deficiency)		30.68%							
2007	Paid during year	19,682	29,906	197,103	227,009	582,914	809,923			
	UCAE, end of year	133,817	268,946	286,341	555,287	438,716	994,003			
	IBNR, end of year	4,610	13,863	15,726	29,589	37,746	67,335			
	Ratio: excess (deficiency)	18.78%	32.84%	4.07%	4.25%					
2008	Paid during year	42,849	73,997	78,298	152,295	248,085	400,380	624,150	1,024,530	
	UCAE, end of year	98,010	170,828	225,159	395,987	279,103	675,090	450,997	1,126,087	
	IBNR, end of year	1,854	6,823	3,866	10,689	11,195	21,884	35,203	57,087	
	Ratio: excess (deficiency)	17.59%	37.36%	3.06%	7.31%	(13.00%)	(3.39%)			
2009	Paid during year	19,553	72,378	66,232	138,610	77,807	216,417	282,651	499,068	584,808
	UCAE, end of year	65,318	115,725	142,402	258,127	189,307	447,434	298,876	746,310	519,811
	IBNR, end of year	-	500	-	500	-	500	4,367	4,867	50,684
	Ratio: excess (deficiency)	21.75%	35.77%	6.98%	8.42%	(8.13%)	(.32%)	(20.5%)	(5.67%)	

# Jamaica International Insurance Company Limited

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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 summarised below:

- a) The retention limit or maximum exposure on insurance policies for all facultative reinsurance treaties for the company range between \$1,875,000 and \$10,000,000 (2008 - \$600,000 and \$10,000,000).
- b) The company's main treaty arrangements are as follows:
  - (i) Property and allied perils 70%:30% (2008 – 60%:40%) Quota Share of premiums i.e. 70% ceded premiums and 30% retention.
  - (ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US\$150,000 (2008 – 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\$20,100,000 (2008 – US\$24,900,000) 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%. At 31 December, the A.M. Best credit ratings for the main reinsurers were as follows:

	<b>2009</b>	<b>2008</b>
Munich Reinsurance Company	A <sup>+</sup>	A <sup>+</sup>
Swiss Reinsurance Company	A <sup>+</sup>	A <sup>+</sup>

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

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Property	793,272	826,099
Motor	6,732	5,728
Marine	2,056	478
Liability	3,541	6,735
Pecuniary loss	1,295	998
Personal accident	400	(481)
	<u>807,296</u>	<u>839,527</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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

### (c) Financial risk

The company is exposed to financial risk through its financial assets and financial liabilities, 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 reinsurers, brokers, 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.

#### ***Credit review process***

The company has established an Investment and Loan Committee and a Risk and Reinsurance Department, which regularly analyse the ability of customers and other counterparties to meet repayment obligations.

### (a) 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 Risk and Reinsurance Department assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

### (b) 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. Additionally, Internal Audit makes regular reviews to assess the degree of compliance with company procedures on credit.

# Jamaica International Insurance Company Limited

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

### (c) Financial risk (continued)

#### (i) Credit risk (continued)

##### (c) 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.

#### *Exposure to credit risk*

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and short term investments	256,710	754,747
Investments	2,915,619	2,410,416
Due from agents, brokers & policyholders	446,161	431,837
Recoverable from reinsurers	531,498	963,283
Other receivables	23,280	4,140
Due from parent company	50	-
	<u>4,173,318</u>	<u>4,564,423</u>

The above table represents a worst case scenario of credit risk exposure to the company at year end.

#### *Ageing analysis of premium receivables past due but not impaired:*

Premium receivables that are less than two months past due are not considered impaired. As at year end, premium receivables of \$97,273,000 (2008 - \$99,622,000) 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:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
61 to 90 days	57,247	49,473
More than 90 days	40,026	50,149
	<u>97,273</u>	<u>99,622</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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

### (c) Financial risk (continued)

#### (i) Credit risk (continued)

##### *Premium receivables*

Note 10 summarises the company's credit exposure for premium receivables at their carrying amounts, as categorised by the agents, brokers and direct business. The majority of premium receivables are receivable from customers and brokers in Jamaica.

##### *Debt securities*

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

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Government of Jamaica	2,982,144	2,355,730
Corporate	129,456	207,210
Other	30,645	497,909
	<u>3,142,245</u>	<u>3,060,849</u>

#### (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 statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;
- (vi) Managing the concentration and profile of debt maturities.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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

### (c) Financial risk (continued)

#### (ii) Liquidity risk (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, 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 and insurance liabilities cash flows**

The tables below present the undiscounted cash flows payable of the company's financial liabilities and estimated cash flows of recognised insurance liabilities based on contractual repayment obligations. The company has no liabilities contractually due past one year.

	<b>Within 1 Month \$'000</b>	<b>1 to 3 Months \$'000</b>	<b>3 to 12 Months \$'000</b>	<b>Total \$'000</b>
<b>2009</b>				
Bank overdraft	15,030	-	-	15,030
Due to reinsurers	-	8,480	104,996	113,476
Claims outstanding	-	-	1,787,301	1,787,301
Other payables	12,344	34,272	63,702	110,318
	<b>27,374</b>	<b>42,752</b>	<b>1,955,999</b>	<b>2,026,125</b>
<b>2008</b>				
Bank overdraft	25,146	-	-	25,146
Due to reinsurers	-	39,234	360,584	399,818
Claims outstanding	-	-	2,105,668	2,105,668
Due to parent company	972	-	-	972
Other payables	39,130	61,106	-	100,236
	<b>65,248</b>	<b>100,340</b>	<b>2,466,252</b>	<b>2,631,840</b>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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## 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 and insurance liabilities include cash and bank balances and investment securities. The company is able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its parent company and 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.

#### **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, maximising foreign currency earnings and holding foreign currency balances.



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

#### (iii) Market risk (continued)

##### **Concentrations of currency risk**

The table below summarises the company's exposure to foreign currency at year end.

	XCD (EC\$) J\$'000	US\$ J\$'000	Total J\$'000
<b>2009</b>			
<b>Assets</b>			
Cash & short term investments	90	26,317	26,407
Investments	789	692,207	692,996
Due from agents, brokers & policyholders	6,830	99,412	106,242
Recoverable from reinsurers and coinsurers	-	287,447	287,447
Total financial assets	7,709	1,105,383	1,113,092
<b>Liabilities</b>			
Due to reinsurers	-	(93,350)	(93,350)
Claims outstanding	(4,060)	(316,768)	(320,828)
Total financial assets	(4,060)	(410,118)	(414,178)
<b>Net financial position</b>	<b>3,649</b>	<b>695,265</b>	<b>698,914</b>
<b>2008</b>			
<b>Assets</b>			
Cash & short term investments	-	237,531	237,531
Investments	-	594,463	594,463
Due from agents, brokers & policyholders	533	143,589	144,122
Recoverable from reinsurers and coinsurers	-	684,679	684,679
Total financial assets	533	1,660,262	1,660,795
<b>Liabilities</b>			
Due to reinsurers	(456)	(241,121)	(241,577)
Claims outstanding	(66)	(700,016)	(700,082)
Other payables	-	(24,392)	(24,392)
Total financial liabilities	(552)	(965,529)	(966,051)
<b>Net financial position</b>	<b>(11)</b>	<b>694,733</b>	<b>694,722</b>

# Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

#### (iii) Market risk (continued)

##### *Foreign currency sensitivity*

The change in currency rate below represents management's assessment of the possible change in the US dollar exchange rates. The sensitivity analysis represents outstanding US\$ denominated monetary items and adjusts their translation at the year end for a 2% revaluation and a 5% devaluation of the Jamaican dollar against its US counterparts. The percentage change in the currency rate will impact each financial asset/liability included in the sensitivity analysis differently. Consequently, individual sensitivity analyses were performed. The effect on profit or loss and equity shown below is the total of the individual sensitivities done for each of the assets/liabilities.

	<b>% Change in Currency Rate 2009</b>	<b>Effect on Profit or Loss 2009 \$'000</b>	<b>Effect on Equity 2009 \$'000</b>	<b>% Change in Currency Rate 2008</b>	<b>Effect on Profit or Loss 2008 \$'000</b>	<b>Effect on Equity 2008 \$'000</b>
USD (J\$ Revaluation)	2%	(9,270)	(9,270)	5%	(23,158)	(23,158)
USD (J\$ Devaluation)	5%	23,176	23,176	10%	46,316	46,316

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(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

#### (iii) Market risk (continued)

##### *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 liabilities.

The following tables summarise 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. There is no interest rate risk arising from the company's insurance assets and liabilities.

	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
<b>2009</b>							
<b>Financial Assets</b>							
Cash & short term investments	256,710	-	-	-	-	-	256,710
Investments	299,459	712,437	903,689	608,978	391,056	22,881	2,938,500
Due from parent company	-	-	-	-	-	50	50
Other receivables	-	-	-	-	-	23,280	23,280
<b>Total financial assets</b>	<b>556,169</b>	<b>712,437</b>	<b>903,689</b>	<b>608,978</b>	<b>391,056</b>	<b>46,211</b>	<b>3,218,540</b>
<b>Financial Liabilities</b>							
Other payables	-	-	-	-	-	(110,318)	(110,318)
Bank overdraft	(15,030)	-	-	-	-	-	(15,030)
<b>Total financial liabilities</b>	<b>(15,030)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(110,318)</b>	<b>(125,348)</b>
<b>Total interest repricing gap</b>	<b>541,139</b>	<b>712,437</b>	<b>903,689</b>	<b>608,978</b>	<b>391,056</b>	<b>(64,107)</b>	<b>3,093,192</b>

# Jamaica International Insurance Company Limited

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (c) Financial risk (continued)

##### (iii) Market 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
<b>2008</b>							
<b>Financial Assets</b>							
Cash & short term investments	754,747	-	-	-	-	-	754,747
Investments	509,399	201,264	1,050,359	325,669	323,725	22,932	2,433,348
Other receivables	-	-	-	-	-	4,140	4,140
<b>Total financial assets</b>	<b>1,264,146</b>	<b>201,264</b>	<b>1,050,359</b>	<b>325,669</b>	<b>323,725</b>	<b>27,072</b>	<b>3,192,235</b>
<b>Financial Liabilities</b>							
Other payables	-	-	-	-	-	(100,236)	(100,236)
Due to parent company	-	-	-	-	-	(972)	(972)
Bank overdraft	(25,146)	-	-	-	-	-	(25,146)
<b>Total financial liabilities</b>	<b>(25,146)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(101,208)</b>	<b>(126,354)</b>
<b>Total interest repricing gap</b>	<b>1,239,000</b>	<b>201,264</b>	<b>1,050,359</b>	<b>325,669</b>	<b>323,725</b>	<b>(74,136)</b>	<b>3,065,881</b>

#### *Interest rate sensitivity*

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

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

	Effect on Profit or Loss \$'000	Effect on Equity \$'000
<b>2009</b>		
<b>Percentage change in basis points:</b>		
-6% on J\$ /-2% on all other currencies	(19,040)	(78,963)
+2% on all currencies	6,346	50,022
<b>2008</b>		
<b>Percentage change in basis points:</b>		
-5%	(20,750)	197,663
+5%	20,750	(75,126)

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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

#### (c) Financial risk (continued)

##### (iv) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company is exposed to no significant levels of equity price risk except through equity investments held and classified on the statement of financial position as available for sale. The company is not exposed to commodity price risk.

### 4. Capital Management

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

- To comply with the capital requirements set by the regulators of the insurance markets within which the company operates;
- 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
- To maintain a strong capital base to support the development of its business.

Capital adequacy is managed and monitored by the company's management. 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 (MAT). This information is required to be filed with the Financial Services Commission (FSC) on an annual basis. As at the year end the MAT for the company is as follows:

	<b>2009</b>	<b>2008</b>
Actual MAT ratio	143%	133%
Required MAT ratio	<u>135%</u>	<u>135%</u>

The minimum standard stipulated by the Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation, 2002 is that a general insurance company shall have a minimum MAT percentage of 135% for the financial year end 2008 -2009.

The regulations require each insurance company to hold a minimum level of the regulatory capital of \$90,000,000, which the company has maintained.

The company has no capital management requirements arising from its registration with regulators in other territories.

## 5. Fair Value Estimation

### (a) Valuation techniques and assumptions

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present values or other estimation and valuation techniques based on market conditions existing at statement of financial position date.

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

- (i) Debt securities classified as available-for-sale are measured at fair value based upon projected cash flows discounted at current market rates which have been determined through the use of quotations and yields obtained from independent brokers.
- (ii) The fair values of quoted investments are based on current bid prices.
- (iii) The fair value of liquid assets and other assets maturing within three months is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- (iv) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts, as it is these instruments are expected to reprice at the prevailing market rates.
- (v) Based on the nature of the unquoted investments and the specificity of their operations within the general insurance industry, the fair values are expected to approximate to their carrying amounts.

## 5. Fair Value Estimation (Continued)

### (b) Fair value measurement

The following table presents the company's financial instruments that are measured at fair value, grouped into Levels 1 to 3 dependent on the degree to which fair values are observable.

	Level 1	Level 2	Total
	\$'000	\$'000	\$'000
Available-for-sale securities -			
Government of Jamaica securities	-	2,982,144	2,982,144
Corporate bonds and other securities	-	160,101	160,101
Equity securities	22,235	-	22,235
	<u>22,235</u>	<u>3,142,245</u>	<u>3,164,480</u>

- (i) Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets and liabilities. These mainly comprise equity and preference shares traded on regional stock exchanges and are classified as available-for-sale.
- (ii) Level 2 includes those instruments which are measured using inputs other than quoted prices that are observable for the instrument, directly or indirectly. The fair value for these instruments is determined by using valuation techniques and maximises the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The inputs used to fair value instruments included in Level 2 relate to yields and quotations obtained from independent brokers.
- (iii) If one or more of the significant inputs is not based on observable market data, the instrument would be included in Level 3. The company has no financial instruments classified in Level 3.

There were no transfers between the levels during the year.

## 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 in the future. 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

### ***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 statement of financial position date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amounts that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the company's experience.

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

### ***Retirement benefit obligations***

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate, and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The company determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the company considered the interest rate for 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.



## Notes to the Financial Statements

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### 6. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

#### *Impairment of intangible assets*

The company tests annually for indicators of impairment of intangible assets. This requires an estimation of the recoverable amount of the intangible asset. The recoverable amount is determined by estimating the expected future cash flows from the asset and using an appropriate discount rate, calculating the present value of those future cash flows. Expected future cash flows are based on financial budgets approved by management covering a three-year period. Cash flows beyond the three year period are extrapolated using estimated growth rates.

### 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:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	30,084	104,314
Short term investments (Note 9)	226,626	650,433
	<u>256,710</u>	<u>754,747</u>
Bank overdraft (Note 17)	(15,030)	(25,146)
	<u>241,680</u>	<u>729,601</u>

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 \$2,203,000 (2008 – \$7,224,000).

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

	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>
Jamaican dollar denominated	18.78	17.44
United States dollar denominated	<u>7.69</u>	<u>6.11</u>

## Notes to the Financial Statements

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### 9. Investments

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

	Years to Maturity				Total 2009 \$'000	Total 2008 \$'000
	Within 1 year \$'000	1 to 5 years \$'000	5 to 10 years \$'000	Over 10 years \$'000		
	Debt securities, at fair value -					
Government of Jamaica	1,982,113	608,978	172,574	218,479	2,982,144	2,355,730
Corporate	129,456	-	-	-	129,456	207,210
Certificates of deposit	30,645	-	-	-	30,645	497,909
	<u>2,142,214</u>	<u>608,978</u>	<u>172,574</u>	<u>218,479</u>	<u>3,142,245</u>	<u>3,060,849</u>
Short term investments, at fair value (Note 8)					(226,626)	(650,433)
					<u>2,915,619</u>	<u>2,410,416</u>
Quoted equity securities, at fair value					22,235	22,286
Unquoted equity securities, at cost					646	646
					<u>2,938,500</u>	<u>2,433,348</u>

Investments include interest receivable of \$170,758,000 (2008 – \$97,654,000).

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 \$100,000,000, which have been pledged with the regulator, the Financial Services Commission, pursuant to Section 8(1) (b) of the Insurance Regulations, 2001. Also included are Certificates of Deposits valued at US\$231,674; J\$ Equivalent \$20,659,378 (2008 – US\$226,819; J\$ Equivalent \$18,136,995) which have been pledged with the regulator in Turks and Caicos and other short term deposits which have been pledged with the regulator in the Commonwealth of Dominica of \$789,000.

## Notes to the Financial Statements

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### 10. Due from Agents, Brokers and Policyholders

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Insurance receivables –		
Agents and brokers	315,095	324,581
Policyholders	135,087	111,277
	<u>450,182</u>	<u>435,858</u>
Less: Provision for impairment	(4,021)	(4,021)
	<u><u>446,161</u></u>	<u><u>431,837</u></u>

### 11. Recoverable from Reinsurers and Coinsurers

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Claims recoverable from coinsurers	65,868	40,789
Reinsurers' portion of claims outstanding (Note 17)	465,630	922,494
Reinsurers' portion of unearned premiums (Note 17)	725,756	731,500
	<u>1,257,254</u>	<u>1,694,783</u>

### 12. Other Receivables

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Staff loans	1,209	1,563
Prepayments	14,436	13,986
Other	22,071	2,577
	<u>37,716</u>	<u>18,126</u>

## 13. Related Party Transactions and Balances

(a) The statement of financial position includes the following balances with related companies:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents –		
Fellow subsidiaries	47,490	126,371
Parent company	390	379
	<u>47,880</u>	<u>126,750</u>
Due from agents, brokers and policyholders –		
Fellow subsidiaries	76,364	200,306
Parent company	896	636
	<u>77,260</u>	<u>200,942</u>
Due to reinsurers – Fellow subsidiaries	-	(26,433)
Due from/(to) parent company	50	(972)
Other payables – Fellow subsidiary	1,887	2,795
Dividend payable – Fellow subsidiary	-	21,404
Bank overdraft – Fellow subsidiary	15,030	25,146

(b) Profit or loss includes the following transactions with key management personnel, all of whom are directors of the company:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Staff costs –		
Wages and salaries	14,422	21,301
Statutory contributions	1,075	1,704
	<u>15,497</u>	<u>23,005</u>
Fees as directors	1,866	1,936
Gross premiums written	1,920	2,364

## 13. Related Party Transactions and Balances (Continued)

(c) Profit or loss includes the following transactions with group companies:

	2009 \$'000	2008 \$'000
Gross premiums written –		
Fellow subsidiaries	249,861	266,005
Parent company	107,234	103,503
	<u>357,095</u>	<u>369,508</u>
Commission received – Fellow subsidiaries	<u>2,345</u>	<u>7,461</u>
Commission paid – Fellow subsidiaries	<u>221,574</u>	<u>119,430</u>
Administration expenses – Parent company	<u>12,731</u>	<u>8,872</u>
Other operating expenses –		
Allocation of central office expenses paid to parent company	96,556	76,560
Allocation of central office expenses paid to fellow subsidiaries	<u>14,058</u>	<u>-</u>
Interest earned –		
Fellow subsidiaries	<u>19,630</u>	<u>15,857</u>
Rental income –		
Fellow subsidiaries	4,134	4,135
Parent company	-	6,018
	<u>4,134</u>	<u>10,153</u>
Royalty expense – Fellow subsidiary	<u>33,365</u>	<u>33,806</u>

## Notes to the Financial Statements

### 31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

#### 14. Fixed Assets

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Total \$'000
<b>2009</b>					
At Cost or Valuation -					
At 1 January 2009	260,413	5,016	113,515	17,633	396,577
Additions	3,226	218	17,714	8,270	29,428
Disposals	-	-	(11,910)	(2,919)	(14,829)
Revaluation	38,487	-	-	-	38,487
At 31 December 2009	302,126	5,234	119,319	22,984	449,663
Depreciation -					
At 1 January 2009	629	897	42,662	9,398	53,586
Charge for the year	3,202	514	13,050	5,728	22,494
On disposals	-	-	(8,712)	(2,840)	(11,552)
Revaluation	(3,831)	-	-	-	(3,831)
At 31 December 2009	-	1,411	47,000	12,286	60,697
Net Book Value -					
31 December 2009	302,126	3,823	72,319	10,698	388,966
<b>2008</b>					
At Cost or Valuation -					
At 1 January 2008	214,414	102,711	91,522	16,424	425,071
Additions	-	-	24,563	6,356	30,919
Disposals	-	(97,695)	(2,570)	(5,147)	(105,412)
Revaluation	45,999	-	-	-	45,999
At 31 December 2008	260,413	5,016	113,515	17,633	396,577
Depreciation -					
At 1 January 2008	2,803	98,043	33,280	9,086	143,212
Charge for the year	2,576	501	10,067	4,429	17,573
On disposals	-	(97,647)	(685)	(4,117)	(102,449)
Revaluation	(4,750)	-	-	-	(4,750)
At 31 December 2008	629	897	42,662	9,398	53,586
Net Book Value -					
31 December 2008	259,784	4,119	70,853	8,235	342,991

Land and buildings are carried at fair market value based on a valuation in 2009 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 (2008 – \$85,972,000) with accumulated depreciation of \$15,334,000 (2008 – \$14,379,000).

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 15. 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.

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

	2009 \$'000	2008 \$'000
Carrying amount as at 1 January	471,271	510,543
Less: Amortisation	(39,272)	(39,272)
Carrying amount as at 31 December	<u>431,999</u>	<u>471,271</u>

### 16. 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 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.

	<u>Pension benefits</u>		<u>Other retirement benefits</u>	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Amounts recognised in the statement of financial position	41,977	90,826	(98,159)	(80,959)
Amounts recognised in profit or loss (Note 26)	(49,988)	(994)	(18,700)	(16,514)

The amounts recognised in the statement of financial position were determined as follows:

	<u>Pension benefits</u>		<u>Other retirement benefits</u>	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Fair value of plan assets	312,956	245,402	-	-
Present value of obligations	(378,194)	(332,231)	(100,433)	(75,413)
	(65,238)	(86,829)	(100,433)	(75,413)
Unrecognised actuarial losses/(gains)	107,215	177,655	2,274	(5,546)
	<u>41,977</u>	<u>90,826</u>	<u>(98,159)</u>	<u>(80,959)</u>

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Retirement Benefits (Continued)

The amounts recognised in profit or loss, in staff costs, were determined as follows:

	Pension benefits		Other retirement benefits	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current service cost, net of employee contributions	(19,004)	(5,336)	(5,721)	(5,981)
Interest cost	(58,168)	(23,532)	(12,861)	(10,388)
Expected return on plan assets	35,123	27,874	-	-
Actuarial gains/(losses) recognised	(7,939)	-	(118)	(145)
	<u>(49,988)</u>	<u>(994)</u>	<u>(18,700)</u>	<u>(16,514)</u>

The actual return on plan assets was a gain of \$56,607,000 (2008 – \$10,095,000).

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

	Pension benefits		Other retirement benefits	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
At beginning of year	(332,231)	(168,009)	(75,413)	(77,403)
Current service cost	(33,821)	(17,482)	(5,721)	(5,981)
Interest cost	(58,168)	(23,532)	(12,861)	(10,388)
Benefits paid	5,009	8,944	1,500	6,961
Actuarial gains/(losses)	41,017	(132,152)	(7,938)	11,398
At end of year	<u>(378,194)</u>	<u>(332,231)</u>	<u>(100,433)</u>	<u>(75,413)</u>

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

	Pension benefits	
	2009 \$'000	2008 \$'000
At beginning of year	245,402	251,311
Employer contributions	1,139	984
Employee contributions	14,817	12,146
Expected return on plan assets	35,123	27,874
Benefits paid	(5,009)	(8,944)
Actuarial losses/ (gains)	21,484	(37,969)
At end of year	<u>312,956</u>	<u>245,402</u>



## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Retirement Benefits (Continued)

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

	<b>2009</b>	<b>2008</b>
	%	%
Equity	16	19
Government securities	57	51
Other	27	30
	<u>100</u>	<u>100</u>

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 statement of financial position date. Expected returns on equity and other plan assets reflect long-term real rates of return experienced in the respective markets.

Expected employer contributions to the plan for the year ended 31 December 2010 amount to \$1,216,000.

The principal actuarial assumptions used were as follows:

	<b>2009</b>	<b>2008</b>
Discount rate	16.00%	16.00%
Long term inflation rate	10.00%	10.00%
Expected return on plan assets	11.00%	11.00%
Future salary increases	12.50%	12.50%
Future pension increases	10.00%	10.00%
Long term increase in health costs	<u>12.50%</u>	<u>10.50%</u>

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. Retirement mortality for active members and mortality for pensioners and deferred pensioners are based on the 1994 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 \$12,657,000/(\$8,065,000), and an increase/(decrease) in the defined benefit obligation of \$32,330,000/(\$23,054,000).

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Retirement Benefits (Continued)

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:

	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000
Fair value of plan assets	312,956	245,402	251,311	224,360	557,579
Defined benefit obligation	(378,194)	(332,231)	(168,009)	(173,175)	(131,184)
Surplus/(Deficit)	(65,238)	(86,829)	83,302	51,185	426,395
Experience adjustments –					
Fair value of plan assets	21,484	(37,969)	(1,039)	(363,133)	354,133
Defined benefit obligation	(41,017)	(18,429)	(4,260)	(660)	11,252

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

	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000
Defined benefit obligation	(100,433)	(75,413)	(77,403)	(78,808)	(57,510)
Experience adjustments	(2,873)	38	(4,473)	269	825

### 17. Bank Overdraft

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

### 18. Insurance Reserves

	2009 \$'000	2008 \$'000
Gross –		
Claims outstanding	1,787,301	2,105,668
Unearned premiums	1,531,037	1,546,471
Unearned commission	101,914	102,580
	<u>3,420,252</u>	<u>3,754,719</u>
Reinsurance ceded –		
Claims outstanding (Note 11)	465,630	922,494
Unearned premiums (Note 11)	725,756	731,500
	<u>1,191,386</u>	<u>1,653,994</u>
Net –		
Claims outstanding	1,321,671	1,183,174
Unearned premiums	805,281	814,971
Unearned commission	101,914	102,580
	<u>2,228,866</u>	<u>2,100,725</u>

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 18. Insurance Reserves (Continued)

An actuarial valuation was performed by the company's appointed actuary, Josh Worsham, FCAS, MAAA of Financial Risk Analysts, LLC to value the policy and claims liabilities of the company as at 31 December 2009, 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 Xxxx, the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2009 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 profit or loss; 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:

	2009 \$'000	2008 \$'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	2,105,668	1,501,162
Reinsurance ceded	(922,494)	(439,824)
	<u>1,183,174</u>	<u>1,061,338</u>
Movement during the year –		
Claims incurred, including IBNR	1,222,374	1,146,366
Claims paid	(1,083,877)	(1,024,530)
	<u>138,497</u>	<u>121,836</u>
Net reserves for claims outstanding at end of year	1,321,671	1,183,174
Reinsurance ceded	465,630	922,494
Gross reserves for claims outstanding at end of year	<u><u>1,787,301</u></u>	<u><u>2,105,668</u></u>

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 statement of financial position 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.

## Notes to the Financial Statements

31 December 2009

(expressed in Jamaican dollars unless otherwise indicated)

### 19. Other Payables

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Accruals	40,574	54,451
Dividend payable	-	21,404
Other	69,744	24,381
	<u>110,318</u>	<u>100,236</u>

### 20. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 $\frac{1}{3}$ %. 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:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	119,545	53,152
Tax (credited)/charged to income statement(Note 27)	(13,388)	51,060
Tax charged to equity – revaluation of fixed assets	9,853	15,333
At end of year	<u>116,010</u>	<u>119,545</u>

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

Deferred tax liabilities	Accelerated depreciation	Revaluation of buildings	Retirement benefits	Interest receivable	Foreign exchange gains	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2008	-	35,752	30,279	22,084	4,669	92,784
Tax (credited)/charged to profit or loss	7,620	-	(4)	12,876	20,354	40,846
Tax charged to equity	-	15,333	-	-	-	15,333
At 31 December 2008	7,620	51,085	30,275	34,960	25,023	148,963
Tax (credited)/charged to profit or loss	(1,001)	-	(16,283)	22,693	(12,875)	(7,466)
Tax charged to equity	-	9,853	-	-	-	9,853
At 31 December 2009	<u>6,619</u>	<u>60,938</u>	<u>13,992</u>	<u>57,653</u>	<u>12,148</u>	<u>151,350</u>

## Notes to the Financial Statements

31 December 2009

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### 20. Deferred Income Taxes (Continued)

Deferred tax assets	Other \$'000	Decelerated depreciation \$'000	Retirement benefits \$'000	Total \$'000
At 1 January 2008	2,150	13,680	23,802	39,632
Tax credited/(charged) to profit or loss	282	(13,680)	3,184	(10,214)
At 31 December 2008	2,432	-	26,986	29,418
Tax credited/(charged) to profit or loss	187	-	5,735	5,922
At 31 December 2009	2,619	-	32,721	35,340

These balances include the following:

	2009 \$'000	2008 \$'000
Deferred tax liabilities to be settled after more than 12 months	81,549	88,980
Deferred tax assets to be recovered after more than 12 months	32,721	26,986

### 21. Share Capital

	2009 \$'000	2008 \$'000
Authorised, issued and fully paid, shares at no par value -		
862,064,000 Ordinary shares	862,064	862,064
3,130,000 Preference shares	203,012	203,012
	<u>1,065,076</u>	<u>1,065,076</u>

The preference shares are issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary, and carry no voting rights for the holder. The company has no obligation to redeem the shares and they are subordinate to the company's obligations to its policyholders and unsecured creditors. Dividends for the preference shares are paid at the discretion of the Board of Directors.

### 22. Capital and Fair Value Reserves

	2009 \$'000	2008 \$'000
Realised gain on sale of investments	824	824
Unrealised loss on the revaluation of available-for-sale investments	(12,335)	(59,977)
Unrealised surplus on the revaluation of fixed assets, net of deferred tax	144,364	111,898
	<u>132,853</u>	<u>52,745</u>

## Notes to the Financial Statements

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### 23. Share Option Reserve

The company's employees participate in an equity-settled, share-based compensation plan with its ultimate parent company, GraceKennedy Limited. Share options are granted to management and key employees.

	2009 \$'000	2008 \$'000
Charge to income statement	11,021	-
At end of year	<u>11,021</u>	<u>-</u>

The movement in the number of share options for the year is as follows:

	Average exercise price 2009 \$	Options 2009 '000
Granted	52.26	239
Forfeited	58.58	(80)
Exercised	41.94	(37)
At end of year	<u>50.67</u>	<u>122</u>

The options granted were at a subscription price of \$52.26, being the weighted average price of the shares for the previous ten trading days prior to the date on which the grant was approved less a 25% discount. The options are exercisable by December 2010, at which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date of the grant. The plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Share options are outstanding on 122,000 shares at the end of the year. The options have an exercise price of \$115.97 and will expire in 2010.

The fair value of options granted was determined using the Binomial valuation model. The significant inputs into the model were the share prices of \$42, \$118 and \$70 at the grant dates, exercise prices of \$41.92, \$115.97 and \$66.43, standard deviation of expected share price returns of 33.85%, 27.39% and 27.47%, dividend yield of 1.28%, 0.85% and 1.64%, option life of six years and two years and annual risk-free interest rate of 14% and 15.35%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of weekly share prices over the term of the options.

## Notes to the Financial Statements

**31 December 2009**

(expressed in Jamaican dollars unless otherwise indicated)

**24. Other Income**

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest earned – available for sale securities	511,754	369,385
(Loss)/gain on disposal of fixed assets	(1,832)	899
Dividend income	1,682	1,470
Net foreign exchange gains	104,178	84,676
Miscellaneous income	66,878	31,266
Profit commission	17,045	7,891
Rental income	4,928	11,031
	<u>704,633</u>	<u>506,618</u>

## Notes to the Financial Statements

31 December 2009

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### 25. Expenses by Nature

Total underwriting, administration and other operating expenses:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Advertising and public relations	78,915	75,046
Allocation of central office expenses paid to parent company	86,921	76,560
Amortisation of intangible asset	39,272	39,272
Auditor's remuneration		
Current year	3,721	3,293
Prior year	-	463
Bad debt expense	465	143
Bank charges	7,352	6,237
Data processing	46,125	31,136
Depreciation	22,494	17,573
Directors' fees	1,866	1,936
Occupancy - rent, utilities, insurance, security	42,032	36,047
Office expenses	51,817	47,415
Professional fees	8,404	6,041
Registration fees and stamp duty	17,520	11,663
Repairs and maintenance	7,726	13,700
Royalty expense	33,365	33,806
Staff costs (Note 26)	381,229	291,393
	<u>829,224</u>	<u>691,724</u>

### 26. Staff Costs

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	236,384	221,384
Statutory contributions	23,423	18,589
Pension – defined benefit (Note 16)	49,988	994
Other retirement benefits (Note 16)	18,700	16,514
Other	52,734	33,912
	<u>381,229</u>	<u>291,393</u>

The number of persons employed full-time by the company at year end was 136 (2008 – 116).



## Notes to the Financial Statements

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**27. Taxation**Taxation is based on the profit for the year and comprises income tax at 33 $\frac{1}{3}$ %:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Current taxation	78,039	32,619
Adjustment to prior year income tax	-	(1,436)
Deferred taxation (Note 19)	(13,388)	51,060
	<u>64,651</u>	<u>82,243</u>

The tax on the company's profit differs from the theoretical amount that would arise using the tax rate of 33 $\frac{1}{3}$ % as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before taxation	<u>253,113</u>	<u>241,107</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	84,371	80,369
Adjusted for the effects of –		
Tax-free interest income	(6,705)	(5,528)
Tax-free rental income under the Urban Renewal Act	-	(2,006)
Tax-free dividend income	(561)	(490)
Income not subject to tax	(12,368)	(1,280)
Interest paid on preference shares	(14,230)	-
Amortisation of intangible assets	13,091	13,091
Other expenses not deductible for tax purposes	1,053	2,592
Adjustment to prior year income tax	-	(1,436)
Other charges and credits	-	(2,245)
	<u>64,651</u>	<u>82,243</u>

## Notes to the Financial Statements

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### 28. Subsequent Event

In February 2010, the company participated in the Jamaica Debt Exchange (JDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the company under the election options contained in the transaction.

The key features of the JDX are as follows:

- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the “Old Notes”) were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the “New Notes”). Participation in the JDX was voluntary.
  - The New Notes comprising 24 new instruments have a variety of payment terms, including fixed and variable rates in Jamaican dollars, CPI-indexed in Jamaican dollars, and fixed rates in U.S. dollars. While all the Old Notes were callable by the Government of Jamaica, all the fixed rate New Notes and certain variable rate New Notes will be non-callable.
  - Eligible investors had the option to choose New Notes based on the type and maturity profile of the Old Notes which were offered for exchange based on certain election options. The election options only allowed investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
  - Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 24 February 2010 (the Final Settlement Date).
- (a) The JDX has had a significant impact on the expected future cash flows from the company's investment portfolio. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	Pre-JDX	Post-JDX
<b>Jamaican Dollar Denominated Instruments:</b>		
Total face value exchanged (quoted in thousands)	\$1,177,000	\$1,177,000
Weighted average coupon rate	17.60%	12.08%
Weighted average tenor to maturity	<u>725 days</u>	<u>2,839 days</u>
<b>US Dollar Denominated Instruments:</b>		
Total face value exchanged (quoted in thousands)	US\$1,000	US\$1,000
Weighted average coupon rate	9.00%	7.25%
Weighted average tenor to maturity	<u>915 days</u>	<u>2,191 days</u>

- (b) Following the JDX, there has been a significant reduction in interest rates and a downward shift in the Jamaica sovereign debt yield curve. This shift will result in a significant reduction in the discount rate used to measure the company's obligations under its defined benefit pension and other post employment benefit plans. Accordingly, the company's obligations under these plans are likely to increase significantly. The company, in conjunction with its actuaries, is in the process of determining the impact on both the accounting measurement and funding of these plans.