GK General Insurance Company Limited

Financial Statements
31 December 2021

3. EXPRESSION OF OPINION

I have examined the financial condition and valued the policy and claims liabilities of GKICL for its balance sheet as at December 31, 2021 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 (J$000)	Carried in Annual Return	Actuary's Estimate
Direct unpaid claims and adjustment expenses:	4,077,684	4,103,828
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	4,077,684	4,103,828
Ceded unpaid claims and adjustment expenses:	947,749	947,009
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	3,129,935	3,156,819

Policy Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		1,420,078
Net policy liabilities in connection with unearned premiums:		1,289,389
Gross unearned premiums:	3,284,146	
Net unearned premiums:	1,739,671	
Premium deficiency:	0	
Other net liabilities:	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 GKICL 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 comprehensive income;

(vi) There is sufficient capital available to meet the solvency standards as established by the Commission

Josh Worsham, FCAS, MAAA	Josh Worsham	March 30, 2022
Name of Appointed Actuary	Signature of Appointed Actuary	Date

Independent auditor's report

To the Member of GK General Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of GK General Insurance Company Limited (the Company) as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on 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 Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica
30 March 2022

GK General Insurance Company Limited

Statement of Financial Position

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Assets			
Cash and deposits	8	3,070,474	2,619,765
Financial assets at amortised cost	9	4,380,089	4,586,670
Financial assets at fair value through other comprehensive income	9	370,148	355,481
Financial assets at fair value through profit or loss	9	493,252	345,761
Receivables from agents, brokers and policyholders	10	1,190,414	1,054,615
Recoverable from reinsurers and co-insurers	11	2,521,138	1,810,281
Deferred policy acquisition costs		315,056	282,753
Other receivables	12	133,048	103,292
Income tax recoverable		87,505	-
Withholding tax recoverable		86,549	-
Due from group companies	13	291,159	179,817
Property, plant and equipment	14	1,173,528	987,094
Intangible assets	15	67,046	72,352
		14,179,406	12,397,881

GK General Insurance Company Limited

Statement of Financial Position (Continued)

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Liabilities and Shareholder's Equity			
Liabilities			
Due to reinsurers		962,148	720,300
Insurance reserves	16	7,698,948	6,501,291
Other payables	17	476,842	445,565
Income tax payable		-	75,174
Due to group companies	13	103,877	109,137
Lease liabilities	18	119,949	133,012
Deferred tax liabilities	19	61,209	75,076
Short-term loans	20	615,680	566,836
Post-employment benefit obligations	21	369,551	317,781
		10,408,204	8,944,172
Shareholder's Equity			
Share capital	22	1,291,739	1,291,739
Capital and fair value reserves	23	393,553	400,111
Share options reserve		10,777	10,777
Retained earnings		2,075,133	1,751,082
		3,771,202	3,453,709
		14,179,406	12,397,881

Approved for issue by the Board of Directors on 30 March 2022 and signed on its behalf by:

Gina Phillipps Black — Chairman

Steven Whittingham — Director

GK General Insurance Company Limited

Statement of Comprehensive Income

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Gross Premiums Written		7,204,186	6,610,999
Reinsurance ceded		(3,698,861)	(3,256,038)
Net premiums written		3,505,325	3,354,961
Change in unearned premiums, net		(65,423)	(41,540)
Net Premiums Earned		3,439,902	3,313,421
Commission income		783,210	660,984
Commission expense		(676,138)	(593,733)
Claims expense	16	(1,981,193)	(1,654,406)
Underwriting expenses	26	(65,495)	(61,790)
Administration expenses	26	(1,286,677)	(1,207,972)
Net impairment charges on financial assets		(12,350)	(590)
Underwriting Profit		201,259	455,914
Interest income	24	269,560	239,189
Other income	25	378,631	79,800
Finance (costs)/income	28	(24,495)	15,924
Other operating expenses	26	(278,487)	(226,906)
Profit before Taxation		546,468	563,921
Taxation	29	(63,069)	(179,680)
Profit for the Year		483,399	384,241
Other Comprehensive Income:			
Item that may be reclassified to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income, net of taxes		(6,558)	2,509
Items that will not be reclassified to profit and loss			
Gains on revaluation of land and buildings, net of taxes		-	50,933
Re-measurements of post-employment benefit obligations, net of taxes		(7,348)	24,177
Other comprehensive income, net of taxes		(13,906)	77,619
Total Comprehensive Income		469,493	461,860

GK General Insurance Company Limited

Statement of Changes in Shareholder's Equity

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital and Fair Value Reserves	Share Options Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2020	1,291,739	346,669	10,777	1,492,569	3,141,754
Profit for the year	-	-	-	384,241	384,241
Other comprehensive income:					
Fair value gains on instruments at fair value through other comprehensive income, net of taxes	-	2,509	-	-	2,509
Fair value gains on revaluation of land and buildings, net of taxes	-	50,933	-	-	50,933
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	24,177	24,177
Other comprehensive income, net of taxes	-	53,442	-	24,177	77,619
Total comprehensive income	-	53,442	-	408,418	461,860
Transactions with owners:					
Dividends on preference shares	-	-	-	(49,905)	(49,905)
Dividends on ordinary shares	-	-	-	(100,000)	(100,000)
Balance at 31 December 2020	1,291,739	400,111	10,777	1,751,082	3,453,709
Profit for the year	-	-	-	483,399	483,399
Other comprehensive income:					
Fair value losses on instruments at fair value through other comprehensive income, net of taxes	-	(6,558)	-	-	(6,558)
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(7,348)	(7,348)
Other comprehensive income, net of taxes	-	(6,558)	-	(7,348)	(13,906)
Total comprehensive income	-	(6,558)	-	476,051	469,493
Transactions with owners:					
Dividends on preference shares (Note 22)	-	-	-	(52,000)	(52,000)
Dividends on ordinary shares (Note 22)	-	-	-	(100,000)	(100,000)
Balance at 31 December 2021	1,291,739	393,553	10,777	2,075,133	3,771,202

GK General Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Cash Flows from Operating Activities			
Premiums received		7,068,387	6,691,086
Reinsurance paid		(3,457,013)	(3,384,050)
Commissions received		834,679	702,351
Commissions paid		(643,836)	(622,750)
Claims paid	16	(1,593,197)	(1,550,971)
Withholding tax paid		(82,778)	(74,158)
Rent received		122,522	109,249
Underwriting, administration and other operating expenditure paid		(2,089,885)	(1,430,994)
Other receipts, net		(101,726)	(75,944)
Cash generated from operations		57,153	363,819
Interest paid		(20,697)	(4,428)
Taxation paid		(238,154)	(80,000)
Net cash (used in)/provided by operating activities		(201,698)	279,391
Cash Flows from Investing Activities			
Interest received		271,883	265,144
Proceeds from sale of investment securities		3,276,682	2,836,033
Investment securities purchased		(2,684,437)	(4,243,459)
Additions to property, plant and equipment	14	(288,978)	(27,942)
Additions to intangible assets	15	(9,360)	(693)
Proceeds on disposal of property, plant and equipment		2,632	4,177
Net cash provided by/(used in) investing activities		568,422	(1,166,740)
Cash Flows from Financing Activities			
Preference dividends paid	22	(52,000)	(95,429)
Ordinary dividends paid	22	(100,000)	(100,000)
Principal elements of lease payments	18	(23,385)	(33,926)
Proceeds from short-term loans		2,423,622	2,013,331
Payments of principal on short-term loans		(2,378,576)	(1,417,090)
Net cash (used in)/provided by financing activities		(130,399)	366,886
Net increase/(decrease) in cash and cash equivalents		236,385	(520,463)
Cash and cash equivalents at beginning of year		2,546,956	2,997,482
Effects of exchange rate changes on cash and cash equivalents		208,406	69,937
Cash and Cash Equivalents at End of Year	8	2,991,747	2,546,956

1. Identification and Activities

(a) GK General Insurance Company Limited (the company) is a limited liability company incorporated and domiciled in Jamaica. The immediate parent company is GraceKennedy Financial Group Limited, and its ultimate parent company is GraceKennedy Limited (the group). Both companies are incorporated and domiciled in Jamaica. The company also has issued preference shares, which are held by a fellow subsidiary, GraceKennedy (St. Lucia) Limited.

(b) The registered office of the company is located at 73 Harbour Street, Kingston, Jamaica. Its principal place of business is 19 -21 Knutsford Boulevard, 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 brokers GK 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), as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS and have been prepared under the historical cost convention except for certain property, plant and equipment and financial assets that are measured at fair value. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 2021 which are relevant to the company's operations

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current and prior financial years. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that there were no new or amended accountings standards that required the company to change its accounting policies or add new disclosures for the 2021 financial year.

GK General Insurance Company Limited

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, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for the company's accounting periods beginning on or after 1 January 2022 or later periods but were not effective at the date of the statement of financial position, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts.

The company's insurance contracts issued, and reinsurance contracts will likely be eligible to be measured by applying the simplified measurement model (the premium allocation approach) which is a modified approach to the general measurement model.

Significant changes will include:

- Accounting for assets for insurance acquisition cash flows.
- Accounting for a loss-recovery component on initial recognition of an onerous group of underlying insurance contracts; and
- Changes to presentation and disclosure
  The adoption of IFRS 17 will significantly impact the presentation and disclosure of the contracts in scope of the standard. These include the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The company is in the advanced stages of implementation of IFRS 17. However, as some material judgements are still under consideration, a reasonable estimate of the financial impacts cannot be provided at this stage. The comparative information for 2022 will be restated by applying the transition provisions in Appendix C to IFRS 17.

Amendment to IAS 16, 'Property, plant and equipment' (effective for annual periods beginning on or after 1 January 2022). This amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognise such sales proceeds and related cost in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The company is currently assessing the impact of this amendment.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements that are not yet effective, and have not been early adopted (continued)

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' (effective for annual periods beginning on or after 1 January 2022). This amendment specifies which costs a company includes when assessing whether a contract will be loss making. It clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The company is currently assessing the impact of these amendments.

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The company is currently assessing the impact of this amendment.

Amendment to IAS 12 – **deferred tax related to assets and liabilities arising from a single transaction** (effective for annual periods beginning on or after 1 January 2023). These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. The company is currently assessing the impact of this amendment.

Amendments to IAS 1, Practice statement 2 and IAS 8 (effective for annual periods beginning on or after 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The company is currently assessing the impact of these amendments.

Amendments to IAS 1, 'Presentation of financial statements' (effective for accounting periods starting not earlier than 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment. The company is currently assessing the impact of these amendments.

The company has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect. This includes amendments resulting from the IASB's ongoing 'Improvements to IFRS' project.

GK General Insurance Company Limited

Notes to the Financial Statements
31 December 2021
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Foreign currency transactions are translated into the company's functional currency, Jamaican dollars, 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 at amortised cost or FVOCI 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 and liabilities such as equities held at fair value through profit or loss are recognised in the profit or loss as part of the fair value gain 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 group companies and other payables. The determination of the fair values of the company's financial instruments is discussed in Note 5.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank and in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(e) Financial assets

Classification

The company classifies its financial assets into the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows. The company reclassifies debt investments only when its business model for managing those assets changes.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Equity instruments held for trading are measured at fair value through profit or loss (FVPL).

2. Significant Accounting Policies (Continued)

(e) Financial assets (continued)

Measurement

Debt instruments

Measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. The company classifies its debt instruments into three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Changes in fair value are taken through OCI. The recognition of interest income and impairment gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Impairment losses are presented as a separate line item in profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The company measures all equity investments at fair value. Where the company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the company's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in profit or loss.

Impairment

The company assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets classified at amortised cost and debt instruments measured at FVOCI.

Application of the General Model

The company has applied the 'general model', as required under IFRS 9, for financial assets other than receivables from agents, brokers and policyholders. Under this model, the company is required to assess on a forward-looking basis the ECL associated with its debt investments carried at amortised cost and FVOCI. The ECL is recognised in profit or loss before a loss event has occurred. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers the time value of money in relation to these outcomes. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2021
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Financial assets (continued)

Impairment (continued)

ECL is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

- *Stage 1* – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL is computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

- *Stage 2* – When a financial asset experiences a significant increase in credit risk subsequent to origination, but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

- *Stage 3* – Financial assets that have objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

Macro-economic Factors and Forward-Looking Information

The company applies an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macro-economic factors and forward-looking information are considered in measurement of ECL, as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECL at each reporting period reflects reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The company uses three scenarios that are probability-weighted to determine ECL.

Expected Life

When measuring ECL, the company considers the maximum contractual period over which the company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options.

2. Significant Accounting Policies (Continued)

(e) Financial assets (continued)

Impairment (continued)

Application of the Simplified Approach

For receivables from agents, brokers and policy holders and intercompany receivables, the company applies the simplified approach permitted by IFRS 9, which requires that the impairment provision is measured at initial recognition, and throughout the life of the receivables, using a lifetime ECL. As a practical expedient, a provision matrix is utilised in determining the lifetime ECL for these receivables.

The lifetime ECL is determined by taking into consideration historical rates of default for each segment of aged receivables, as well as the estimated impact of forward-looking information.

(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).

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

Claims and loss adjustment expenses are charged to profit or loss as incurred based on estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to reporting 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) Receivables from agents, brokers and policy holders and intercompany receivables

Receivables are recognised when due, and are carried at cost, less provision for impairment, which is deemed to approximate the fair value of these short-term assets. These include amounts due from agents, brokers and insurance contract holders.

Expected credit losses are calculated on receivables from agents, brokers and policyholders and intercompany receivables on a periodic basis and the carrying amount reduced accordingly with the impairment loss recognised in profit or loss. Refer to Note 2 (e) for further details.

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2. Significant Accounting Policies (Continued)

(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 amounts 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 as well as claims recoverable from reinsurers, are included in recoverable from reinsurers on the statement of financial position.

Expected credit losses are calculated on reinsurance assets on a periodic basis and the carrying amount reduced accordingly with the impairment loss recognised in profit or loss. Refer to Note 2 (e) for further details.

(i) Deferred policy acquisition costs

The costs of acquiring and renewing insurance contracts (commission expense), which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs 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) Property, plant and equipment 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 property, plant and equipment 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 recognised in OCI and credited to capital and fair value reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the capital and fair value reserves, through OCI; all other decreases are charged to profit or loss.

GK General Insurance Company Limited

2. Significant Accounting Policies (Continued)

(j) Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis at such rates that 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 property, plant and equipment are as follows:

Freehold building	60 years
Leasehold improvements	10 years
Furniture, fixtures and equipment	3 – 10 years
Motor vehicles	4 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end. 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 property, plant and equipment are determined by reference to their carrying amount and are considered 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.

(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. The expected useful life of the intangible assets are as follows:

Policy contracts	10-15 years
Computer software	5 years

(l) Impairment of non-financial assets

Property, plant and equipment 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 levels for which there are separately identifiable cash flows.

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2. Significant Accounting Policies (Continued)

(m) Leases

As a lessee

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the company. The right-of-use assets are presented within property, plant and equipment.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

• Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
• Variable lease payments that are based on an index or a rate;
• Amounts expected to be payable by the company under residual value guarantees;
• The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
• Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

The lease payments are discounted using the company's incremental borrowing rate.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease. Periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

• The amount of the initial measurement of the lease liability;
• Any lease payments made at or before the commencement date less any lease incentives received;
• Any initial direct costs; and
• Restoration costs.

Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation period for the right-of-use assets are as follows:

Building	1 - 11 years
Parking spaces	1 – 2 years

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The company applies the exemption for low-value assets on a lease-by-lease basis, i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability. For all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise computers, tablets, mobile phones and small items of office furniture.

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2. Significant Accounting Policies (Continued)

(m) Leases (continued)
As a sublessor
The company is a sub-lessor (intermediate lessor) of the right-of-use assets.

An intermediate lessor classifies the sublease as a finance lease, or an operating lease as follows:
- If the head lease is a short-term lease that the entity, as a lessee, has accounted for as stated in Note 18, the sublease is classified as an operating lease,
- Otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the head lease; otherwise, it is classified as an operating lease.

For subleases classified as finance lease, the intermediate lessor derecognises the right-of-use asset relating to the head lease that is transfers to the sublessee and recognises the net investment in the sublease; any difference between the right-of-use assets and the net investment in the finance sublease is recognised in profit or loss.

At the commencement date, net investment in the finance lease is measured at an amount equal to the present value of the lease payments for the underlying right-of-use assets during the lease term (the lease payments included in the measurement are the same as disclosed in Note 18 for the lease contract where the company is a lessee). The lessor recognises finance income over the lease term, based on a pattern reflecting a constant period rate of return on the lessor's net investment in the lease.

For subleases classified as operating lease, the intermediate lessor recognises the lease income from operating leases on a straight-line basis over the lease term. The respective leased asset is included in the statement of financial position based on its nature.

(n) 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 period of 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 reporting date and is computed by applying the 365th 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 life of the period in which the commissions are expected to be earned. These reserves are calculated by applying the 365th method to gross commissions.

(iii) 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.

2. Significant Accounting Policies (Continued)

(n) Insurance reserves (continued)

(iv) 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 16). This calculation is done in accordance with the Insurance Act 2001.

(v) Unexpired period of risk reserve

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

(vi) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the policy liabilities, net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows are compared to the carrying amount of policy liabilities and any deficiency is immediately recognised in profit or loss as unexpired risk provision.

(o) Other receivables and payables

Other receivables and payables, including balances with group companies, are stated at historical cost.

Expected credit losses are calculated on other receivables on a periodic basis and the carrying amount reduced accordingly with the impairment loss recognised in profit or loss.

(p) Income taxes

Taxation expense in profit or loss 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.

2. Significant Accounting Policies (Continued)

(q) Employee benefits

(i) Pension obligations

The company participates in a defined benefit plan operated by the ultimate parent. The defined benefit plan 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 ultimate parent company assumes the defined benefit pension obligations of all companies within the GraceKennedy Group participating in this scheme. As a result, the ultimate parent company recognises the total pension assets and obligations in respect of this plan. Under this arrangement, the obligation of the company is limited to the regular monthly pension contributions. Contributions are recognised in the period in which they are incurred.

The company also participates in a defined contribution plan operated by the ultimate parent. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits due.

(ii) Other post-employment obligations

The company participates in a number of other post-employment schemes operated by GraceKennedy Limited. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. 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 liability in respect of these obligations is the present value of the defined benefit obligation at reporting date, together with adjustments for actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of 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 are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the profit or loss.

(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.

2. Significant Accounting Policies (Continued)

(q) Employee benefits (continued)

(v) Incentive plans

The company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit after certain adjustments. The company recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(vi) 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 weighted average price of the parent company's shares on the Jamaica Stock Exchange for the previous ten days 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.

(r) Revenue and income 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 are deferred as unearned premiums (Note 2(n)(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 primarily earned on the company's investments and is calculated using the effective interest yield method. Interest income is recognised as it accrues unless collectability is in doubt.

Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL). Dividends are recognised as other income in profit or loss when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

(s) Dividend distribution

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

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective yield method.

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 insurance 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 for managing and monitoring risks, as follows:

(i) Investment and Loan Committee
The Investment and Loan Committee is responsible for monitoring and approving investment and liquidity strategies for the company. The Committee also assists the Board in its oversight of the company's exposure to credit risk, liquidity risk, market risk and operational risk.

(ii) Audit Committee
The Audit Committee assists the Board in its oversight of the risk management functions and processes of the company, reviews the adequacy of internal controls over risk management, and monitors the company's compliance with legal and regulatory requirements. The Audit Committee is assisted in its oversight role by the Internal Audit Department of the ultimate parent company, which regularly conducts reviews of key areas of risk.

(iii) Insurance Risk Committee
The Insurance Risk Committee oversees the company's insurance risk arrangements. The Committee's mandate is to ensure that the company's insurance risk appetite is appropriate and adhered to and that key insurance risks are identified and managed.

(iv) Conduct Review Committee
The Conduct Review Committee is responsible for the monitoring of related party transactions and ensuring that these are in the normal course of business, at arm's length and in the best interests of the company.

Management has also established the following framework for managing and monitoring risk:

(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 managing the liquidity risk of the company.

(ii) Risk and Reinsurance function
The Risk and Reinsurance function develops the company's insurance risk management framework and negotiates reinsurance (treaty and facultative) arrangements, including assessing the performance and credit worthiness of the reinsurers. They monitor the company's compliance with the insurance risk policies and procedures, by way of advisory activities, regular performance monitoring, exception reporting & audits conducted periodically.

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.

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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 types of policies based on guidelines set by the Board of Directors. Insurance risk arising from the company's insurance contracts is, however, primarily concentrated within Jamaica.

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

Claims on insurance contracts are payable on a claims-occurrence basis. The company is liable for all insured events that occur during the term of the contract. Some classes of insurance cover such as those involving liability are settled over a long period of time. The related claims provision on these classes would therefore include an IBNR portion. 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 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 liability for such losses. However, in an effort to reduce the risk of non-payment, the company performs financial strength assessments of its reinsurers and monitors risk concentration limits. See Note 3(b) for details.

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 claim 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 reported claims not yet paid and a provision for IBNR.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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 reporting 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 insurer 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.

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:

	2021		2020	
	Policy Limit $'000	Maximum Net Retention $'000	Policy Limit $'000	Maximum Net Retention $'000
Commercial property –				
Fire and consequential loss	1,539,200	12,314	1,417,090	11,337
Boiler and machinery	923,520	6,926	701,460	6,377
Engineering	1,231,360	9,235	935,279	8,503
Burglary, money and goods in transit	38,480	38,480	35,427	35,427
Glass	38,480	38,480	35,427	35,427
Other	38,480	38,480	35,427	35,427
Liability	461,760	46,176	425,127	42,513
Marine, aviation and transport	92,352	4,618	85,025	2,126
Motor	60,000	15,000	68,000	17,600
Pecuniary loss –				
Fidelity	38,480	38,480	35,427	35,427
Surety/Bonds	230,880	46,176	212,564	63,769
Personal accident	38,480	38,480	35,427	35,427
Personal property	1,539,200	12,314	1,417,090	11,337

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Risk exposure and concentrations of risk

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contract.

		2021				
Territory		**Motor $'000**	**Liability $'000**	**Property $'000**	**Other $'000**	**Total $'000**
Jamaica	Gross	3,045,063	512,375	240,807	107,531	3,905,776
	Net	2,575,440	434,078	16,533	81,743	3,107,794
Turks and Caicos Island	Gross	8,422	-	152,689	-	161,111
	Net	8,422	-	3,134	-	11,556
Dominica	Gross	10,455	114	228	-	10,797
	Net	10,455	114	16	-	10,585
Total	Gross	3,063,940	512,489	393,724	107,531	4,077,684
	Net	2,594,317	434,192	19,683	81,743	3,129,935

		2020				
Territory		**Motor $'000**	**Liability $'000**	**Property $'000**	**Other $'000**	**Total $'000**
Jamaica	Gross	2,314,278	409,231	219,998	107,561	3,051,068
	Net	2,269,909	353,995	17,296	81,451	2,722,651
Turks and Caicos Island	Gross	3,125	-	141,518	-	144,643
	Net	3,125	-	2,917	-	6,042
Dominica	Gross	13,246	-	-	-	13,246
	Net	13,246	-	-	-	13,246
Total	Gross	2,330,649	409,231	361,516	107,561	3,208,957
	Net	2,286,280	353,995	20,213	81,451	2,741,939

GK General Insurance Company Limited

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 requirements 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) Scenario Testing

The two major assumptions that determine reserve levels are:

- The selection of a priori loss ratios within the Bornhuetter-Ferguson methods, and
- The selection of loss development factors.

These factors have been stochastically modelled using various confidence intervals to determine the impact on the net reserves. The net reserves of $3,129,935,000 (2020 – $2,741,939,000) were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by $115,045,000/($115,297,000) (2020 – $129,276,000/ ($73,284,000)).

Development claim liabilities

In addition to sensitivity analysis, the development of insurance liabilities from 2012 to 2021, provides a measure of the company's ability to estimate the ultimate value of claims. The table below illustrates how the company's estimate of the ultimate claims liability for accident years 2012 - 2021 has changed at successive year-ends, up to 2021. 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.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities (continued)

		2012 and prior $'000	2013 $'000	2013 and prior $'000	2014 $'000	2014 and prior $'000	2015 $'000	2015 and prior $'000	2016 $'000	2016 and prior $'000	2017 $'000	2017 and prior $'000	2018 $'000	2018 and prior $'000	2019 $'000	2019 and prior $'000	2020 $'000	2020 and prior $'000	2021 $'000	2021 and prior $'000
2012	Paid during year	1,038,472																		
	UCAE, end of year	1,774,617																		
	IBNR, end of year	82,782																		
	Ratio: excess (deficiency)																			
2013	Paid during year	673,354	603,514	1,276,868																
	UCAE, end of year	1,574,307	768,396	2,342,703																
	IBNR, end of year	10,023	80,193	90,216																
	Ratio: excess (deficiency)	(21.55%)																		
2014	Paid during year	405,025	380,436	785,461	517,167	1,302,628														
	UCAE, end of year	1,193,776	511,862	1,705,638	588,623	2,294,261														
	IBNR, end of year	-	18,964	18,964	74,986	93,950														
	Ratio: excess (deficiency)	(22.33%)		(3.17%)																
2015	Paid during year	278,989	120,032	399,021	264,419	663,440	531,159	1,194,599												
	UCAE, end of year	810,141	410,403	1,220,544	364,206	1,584,750	634,512	2,219,262												
	IBNR, end of year	(27,783)	(9,377)	(37,160)	18,167	(18,993)	120,092	101,099												
	Ratio: excess (deficiency)	(15.20%)		2.67%		6.66%														
2016	Paid during year	158,925	64,460	223,385	98,466	321,851	302,986	624,837	586,956	1,211,793										
	UCAE, end of year	598,147	331,933	930,080	298,962	1,229,042	377,645	1,606,687	665,402	2,272,089										
	IBNR, end of year	(17,744)	(13,373)	(31,117)	(15,243)	(46,360)	22,506	(23,854)	116,352	92,498										
	Ratio: excess (deficiency)	(12.88%)		5.18%		9.22%		4.86%												
2017	Paid during year	172,602	47,534	220,136	65,457	285,593	107,318	392,911	302,986	695,897	789,428	1,485,325								
	UCAE, end of year	329,351	264,130	593,481	226,763	820,244	283,314	1,103,558	377,645	1,481,203	832,854	2,314,057								
	IBNR, end of year	(10,367)	(10,686)	(319)	(13,167)	(13,486)	(16,683)	(30,169)	22,506	(7,663)	133,933	126,270								
	Ratio: excess (deficiency)	(9.22%)		8.70%		13.00%		9.88%		8.25%										
2018	Paid during year	55,729	32,699	88,428	43,724	132,152	53,742	185,894	87,869	273,763	546,433	820,196	769,574	1,589,770						
	UCAE, end of year	290,359	196,309	486,668	165,616	652,284	230,261	882,545	296,901	1,179,446	371,801	1,551,247	758,043	2,309,290						
	IBNR, end of year	(1,700)	(10,677)	(12,377)	(9,745)	(22,122)	(13,680)	(35,802)	(11,874)	(47,676)	36,229	(11,447)	109,701	98,254						
	Ratio: excess (deficiency)	-9.47%		9.95%		14.87%		11.64%		11.13%		3.29%								
2019	Paid during year	44,003	23,066	67,069	28,572	95,641	35,182	130,823	56,898	187,720	104,505	292,226	432,017	724,243	848,323	1,572,566				
	UCAE, end of year	234,477	119,866	354,343	152,175	506,518	207,124	713,642	255,582	969,224	317,715	1,286,939	448,348	1,735,287	809,246	2,544,533				
	IBNR, end of year	53,873	7,872	61,745	(22,180)	39,565	(22,730)	16,835	(33,491)	(16,656)	(39,048)	(55,704)	(9,521)	(65,225)	159,196	93,971				
	Ratio: excess (deficiency)	(11.82%)		9.59%		14.38%		11.01%		10.77%		3.96%		0.55%						
2020	Paid during year		60,175	60,175	26,016	86,191	25,118	111,309	22,031	133,340	62,847	196,187	93,835	290,022	480,918	770,940	780,031	1,550,971		
	UCAE, end of year	203,874	94,760	298,634	89,627	388,261	178,243	566,504	234,173	800,677	279,337	1,080,014	381,734	1,461,748	435,236	1,896,984	760,439	2,657,423		
	IBNR, end of year	(2,053)	(4,551)	(6,604)	(5,864)	(12,468)	(42,996)	(55,464)	(52,925)	(108,389)	(56,218)	(164,577)	(46,275)	(210,882)	18,837	(192,015)	282,174	90,129		
	Ratio: excess (deficiency)	(7.16%)		12.22%		17.90%		15.67%		16.14%		8.86%		5.92%	3.45%	6.16%				
2021	Paid during year	18,480	3,312	21,792	13,171	34,963	18,390	53,353	27,211	80,564	50,446	131,010	65,166	196,176	109,215	305,391	512,967	818,358	774,839	1,593,197
	UCAE, end of year	158,611	91,788	250,399	69,927	320,326	108,702	429,028	196,533	625,561	238,934	864,495	341,411	1,205,906	393,826	1,599,732	466,319	2,066,051	965,907	3,031,958
	IBNR, end of year	-	(893)	(893)	(1,858)	(2,751)	(3,310)	(6,061)	(47,287)	(53,348)	(60,947)	(114,295)	(63,128)	(177,423)	(44,223)	(221,646)	31,077	(190,569)	315,343	124,774
	Ratio: excess (deficiency)	(7.16%)	3.53%	(12.22%)	8.02%	17.90%	12.59%	15.67%	16.72%	16.14%	3.09%	8.86%	0.74%	5.91%	3.45%	6.16%	3.45%	3.45%	3.45%	3.45%

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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 or group of insurance policies, an insurer may cede certain levels of risk to a reinsurer or reinsurers. The company utilises reinsurance treaties to reduce its net retained risk and uses a professional reinsurance broker for risk advice and to assist in the selection of reinsurers. The risk is spread over several reinsurers all of whom are highly rated by at least one of the four major rating agencies. The credit ratings of reinsurers are regularly monitored.

Retention limits represent the level of risk retained by the insurer. Overage 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 reinsurance treaties for the company range between $4,618,000 and $46,176,000 (2020 - $2,126,000 and $63,769,000).

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

(i) Property and allied perils 80%:20% (2020 – 80%:20%) Quota Share of premiums i.e. 80% ceded premiums and 20% retention. Note 3(a).
(ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US$300,000 (2020 – US$300,000) for any one loss or event.
(iii) Catastrophe excess of loss treaty which covers losses in various layers, the maximum of which is US$23,000,000 (2020 – US$23,000,000) for any one event.

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

	2021 **$'000**	**2020** **$'000**
Property	123,916	638,623
Motor	18,592	14,397
Marine	9,102	778
Liability	14,164	23,023
Personal accident	-	1,095
Pecuniary loss	2,993	126
	168,767	678,042

(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 credit risk, liquidity risk and market risk (currency risk, interest rate risk, price risk).

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

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 an important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit risk arises from cash and cash equivalents, contracted cash flows on debt instruments carried at amortised cost and at fair value through other comprehensive income, amounts due from reinsurers, amounts due from related parties and amounts due from insurance contract holders, insurance brokers and agents.

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's Investment and Loan Committee monitors the credit risk associated with premiums receivable, as well as those associated with investments, using information supplied by management. The Risk and Reinsurance Function periodically assesses the financial strength of reinsurers.

(a) Premium and other receivables

Management utilises periodic reports to assist in monitoring any receivables 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.

(b) Investment and Loan Committee

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

Refer to policy on financial assets for details on impairment methodology relating to receivables from agents, brokers and policyholders, reinsurance receivables, intercompany receivables and investment securities (Note 2 (e)).

(c) 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 ordinarily liable for the payment to the claimant. 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 Function assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Exposure to credit risk

	2021 $'000	2020 $'000
Subject to expected credit losses:		
Cash and deposits	3,070,474	2,619,765
Financial assets at amortised cost	4,380,089	4,586,670
Financial assets at fair value through other comprehensive income	370,148	355,481
Receivables from agents, brokers & policyholders	1,190,414	1,054,615
Due from group companies	291,159	179,817
Recoverable from reinsurers and co-insurers	976,663	477,844
	10,278,947	9,274,192

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(i) Credit risk (continued)

Amounts due from agents, brokers & policyholders

Note 10 summarises the company's credit exposure for amounts due from agents, brokers & policyholders at their carrying amounts. The majority of amounts due 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:

	2021 $'000	2020 $'000
Government of Jamaica	2,051,690	1,298,795
Bank of Jamaica	129,982	198,680
Corporate	4,139,413	4,516,877
	6,321,085	6,014,352

Impairment of financial assets

The company has the following types of financial assets that are subject to IFRS 9's expected credit loss model:

- Receivables from agents, brokers and policyholders;
- Intercompany receivables;
- Cash and cash equivalents;
- Debt investments carried at amortised cost; and
- Debt investments carried at FVOCI.

While reinsurance receivables, intercompany receivables and cash and cash equivalents are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Receivables from agents, brokers and policyholders

The company applies the IFRS 9 simplified approach to measuring expected credit loss (ECL) which uses a lifetime expected loss allowance for all receivables from agents, brokers and policyholders.

To measure the expected credit losses, receivables from agents, brokers and policyholders have been grouped based on shared credit risk characteristics and the days past due. The two key categories considered are broker receivables and client receivables as the risk profile in these two categories are considered to be different.

The expected loss rates are based on the liquidation profiles of premiums receivable over a period of 36 months. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the unemployment rate to be the most relevant macro-economic factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(i) Credit risk (continued)

Impairment of financial assets (continued)

Receivables from agents, brokers and policyholders (continued)

On that basis, the loss allowance was determined as follows for receivables from agents, brokers and policyholders:

As at 31 December 2021	0-30 Days	31-60 Days	61-90 Days	91-120 Days	More than 121 Days	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Agent and Broker receivables	133,606	208,377	71,319	80,401	275,123	768,826
Expected loss rate	0.16%	0.18%	0.26%	0.49%	1.36%	
Policyholders receivables	58,342	52,331	37,271	25,006	254,956	427,906
Expected loss rate	0.14%	0.17%	0.21%	0.33%	0.42%	
Loss allowance	296	464	263	477	4,818	6,318

As at 31 December 2020	0-30 Days	31-60 Days	61-90 Days	91-120 Days	More than 121 Days	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Agent and Broker receivables	262,982	175,799	93,636	46,613	161,301	740,331
Expected loss rate	0.16%	0.19%	0.27%	0.49%	2.49%	
Policyholders receivables	98,510	55,991	37,118	30,322	99,219	321,230
Expected loss rate	0.14%	0.18%	0.23%	0.33%	1.28%	
Loss allowance	559	435	338	328	5,286	6,946

The loss allowance for receivables from agents, brokers and policyholders is as follows:

	2021	2020
	$'000	$'000
At 1 January	6,946	4,661
Recognised in profit or loss during the year	(628)	2,285
At 31 December	6,318	6,946

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Impairment of financial assets (continued)

Receivables from agents, brokers and policyholders (continued)

Receivables from agents, brokers and policyholders are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, failure to make contractual payments for a period greater than 1 year, and alternative methods of debt collection have been exhausted.

Debt investments

Expected credit loss (ECL) for debt instruments at amortised cost and FVOCI were measured using lifetime expected losses. Management considered whether there were significant increases in credit risks associated with these investments since origination and concluded that sufficient information was unavailable to assess the credit risk at origination. Additionally, the low credit risk criteria were not met as investments were ranked below investment grade, a key criterion in classifying an investment as having a low credit risk.

The key parameters used in the ECL model, including probabilities of defaults (PDs), loss given default (LGDs) and probability-weighted scenarios, were obtained from externally published information by an established rating agency.

Probability of default (PD)
The parameters for PDs were developed by the rating agency by tracking and analysing rating and historical default information over a 33 year period for 132 countries and presents a 10-year issuer-weighted default study. The default rate is calculated by averaging the experiences of the issuers on a month by month basis over the 33-year period.

Loss given default (LGD)
As a base case in determining LGDs, management considered published recovery data associated with historical defaulted sovereign bonds. Based on this report, the observable loss rate on historically defaulted local bonds was on average 20%. Management is therefore of the view that a similar loss rate will be experienced on local bonds in the event of a future default. Management judgement was used to further adjust this expected loss rate for corporate and global bonds with the credit quality of the issuer as well as the tenure being the primary drivers as to the level of adjustment made.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Impairment of financial assets (continued)

Debt investments (continued)

Exposure at default (EAD)
EAD represents the carrying value of the financial instrument at the point of an expected default event and is limited to the contractual life of the respective instruments. Based on the nature of the securities held by the company, being non-amortising, the cash flow includes the periodic interest payment followed by lump sum upon contractual maturity. The EAD is therefore deemed by management to be the unpaid principal as well as the unpaid interest at the point of the expected default.

Forward-looking consideration
Management considered the need to adjust the key parameters to incorporate forward looking information in calculating expected credit losses. A historical assessment was performed to determine the relationship between historical default events, loss experiences and key macro-economic indicators. Macro-economic indicators considered include gross domestic product (GDP), unemployment rate as well as other factors such as the impact of any regulatory, legislative or political changes. Based on these assessments, there were no observable relationships between the historical default events or loss experiences and the macro-economic indicators. Additionally, the local economy has been relatively stable and showing signs of modest growth. Management has therefore concluded that there are no forecast events or changes in key macro-economic variables that would materially impact the ECL parameters and as such no adjustments were made for these factors. This assessment is reviewed and monitored for appropriateness on a quarterly basis.

Probability-weighted scenarios
As with any forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be different to those projected. ECL is therefore required to be measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. To achieve this, management considered the probability that the expected rating of an instrument will remain in the current rating bucket (base case), increase by one rating bucket (upside) and decrease by one rating bucket (downside).

The probability outcomes were obtained from data published by a reputable rating agency which presents an analysis of historical rating migration of debt instruments over a 33-year period.

Discounting
ECL is measured in a way that reflects the time value of money. As such, cash shortfall associated with expected defaults are discounted back to the statement of financial position date. This is done by calculating the present value of the undiscounted ECL using the original effective interest rate (EIR) on each instrument.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(i) Credit risk (continued)

Impairment of financial assets (continued)

Debt investments (continued)

Debt investments at amortised cost
The loss allowance for debt investments at amortised cost is as follows:

	2021 $'000	2020 $'000
At 1 January	24,573	24,593
Recognised in profit or loss during the year	12,350	(20)
At 31 December	36,923	24,573

Debt investments at FVOCI
The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The loss allowance for debt investments is as follows:

	2021 $'000	2020 $'000
At 1 January	4,123	3,943
Recognised in profit or loss during the year	185	180
At 31 December	4,308	4,123

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they become due. 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 by management and monitored by the Investment and Loan Committee, includes:

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

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

(iii) Optimising cash returns on investment; and

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

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 transactions are often of uncertain terms 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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(ii) Liquidity risk (continued)

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, except for lease liabilities.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
			2021			
Lease liabilities	2,249	4,499	20,242	73,462	48,998	149,450
Due to reinsurers	-	962,148	-	-	-	962,148
Claims outstanding	4,077,684	-	-	-	-	4,077,684
Other payables	-	172,768	244,904	-	-	417,672
Short-term loans	-	311,111	317,652	-	-	628,763
	4,079,933	1,450,526	582,798	73,462	48,998	6,235,717
			2020			
Lease liabilities	2,764	4,311	19,399	76,376	67,214	170,064
Due to reinsurers	-	720,300	-	-	-	720,300
Claims outstanding	3,208,957	-	-	-	-	3,208,957
Other payables	-	190,218	212,613	-	-	402,831
Short-term loans	-	285,307	289,795	-	-	575,102
	3,211,721	1,200,136	521,807	76,376	67,214	5,077,254

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 ultimate parent company and financing institutions.

Additionally, the company can exercise its right to cash calls from its insurers should there be an urgent need to settle large claims and those arising from catastrophic events.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(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 monitors price movement of financial assets monthly 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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk

The tables below summarise the company's exposure to foreign currency at year end.

	CAN$ J$'000	EC$ J$'000	US$ J$'000	Total J$'000
		2021		
Assets				
Cash and deposits	-	151,259	750,486	901,745
Investment securities	-	78,727	1,047,063	1,125,790
Receivable from agents, brokers & policyholders	-	18,140	187,116	205,256
Recoverable from reinsurers and co-insurers	-	40,374	1,329,125	1,369,499
Total financial assets	-	288,500	3,313,790	3,602,290
Liabilities				
Due to reinsurers	(503)	-	(401,405)	(401,908)
Insurance reserves	-	(65,768)	(1,142,471)	(1,208,239)
Short-term loan	-	-	(615,680)	(615,680)
Total financial liabilities	(503)	(65,768)	(2,159,556)	(2,225,827)
Net financial position	(503)	222,732	1,154,234	1,376,463
		2020		
Assets				
Cash and deposits	-	161,361	808,388	969,749
Investment securities	-	-	1,067,080	1,067,080
Receivable from agents, brokers & policyholders	-	23,688	172,444	196,132
Recoverable from reinsurers and co-insurers	-	31,578	1,015,271	1,046,849
Total financial assets	-	216,627	3,063,183	3,279,810
Liabilities				
Due to reinsurers	(409)	(2,342)	(245,369)	(248,120)
Insurance reserves	-	(78,396)	(1,301,306)	(1,379,702)
Short-term loan	-	-	(566,836)	(566,836)
Total financial liabilities	(409)	(80,738)	(2,113,511)	(2,194,658)
Net financial position	(409)	135,889	949,672	1,085,152

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(iii) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity

The following table indicates the currencies to which the company had exposure on its monetary assets and liabilities at year end. The change in currency rates 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% appreciation and a 8% depreciation (2020 – 2% appreciation and 6% depreciation) of the Jamaican dollar against these currencies. 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 shown below is the total of the individual sensitivities done for each of the assets/liabilities. There is no sensitivity on the company's other components of equity as the company does not enter into cash flow hedges.

	Change in Currency Rate	Effect on Profit before Taxation	Change in Currency Rate	Effect on Profit before Taxation
	2021	2021	2020	2020
	%	$'000	%	$'000
US$ (J$ Appreciation)	2%	23,085	2%	(18,993)
US$ (J$ Depreciation)	8%	(92,339)	6%	56,980

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 Investment and Loan 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 through the adherence to a prescribed maturity profile.

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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(iii) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
				2021			
Financial Assets							
Cash and deposits	2,240,697	824,912	-	-	-	4,865	3,070,474
Investment securities	155,000	102,280	1,808,609	2,078,833	560,816	537,951	5,243,489
Due from group companies	-	-	-	-	-	291,159	291,159
Other receivables	-	-	-	-	-	2,549	2,549
Total financial assets	2,395,697	927,192	1,808,609	2,078,833	560,816	836,524	8,607,671
Financial Liabilities							
Lease liabilities	(1,623)	(3,272)	(15,119)	(55,047)	(44,888)	-	(119,949)
Other payables	-	-	-	-	-	(417,672)	(417,672)
Due from group companies	-	-	-	-	-	(103,877)	(103,877)
Short-term loans	-	(307,840)	(307,840)	-	-	-	(615,680)
Total financial liabilities	(1,623)	(311,112)	(322,959)	(55,047)	(44,888)	(521,549)	(1,257,178)
Total interest repricing gap	2,394,074	616,080	1,485,650	2,023,786	515,928	314,975	7,350,493

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
				2020			
Financial Assets							
Cash and deposits	2,307,007	239,681	-	-	72,809	268	2,619,765
Investment securities	92,951	923,826	2,350,862	1,114,207	460,305	345,761	5,287,912
Due from group companies	-	-	-	-	-	179,817	179,817
Other receivables	-	-	-	-	-	2,023	2,023
Total financial assets	2,399,958	1,163,507	2,350,8622	1,114,207	533,114	527,869	8,089,517
Financial Liabilities							
Lease liabilities	(59)	-	(6,278)	(6,123)	(120,552)	-	(133,012)
Other payables	-	-	-	-	-	(402,831)	(402,831)
Due from group companies	-	-	-	-	-	(109,137)	(109,137)
Short-term Loans	-	(283,418)	(283,418)	-	-	-	(566,836)
Total financial liabilities	(59)	(283,418)	(289,696)	(6,123)	(120,552)	(511,968)	(1,211,816)
Total interest repricing gap	2,399,899	880,089	2,061,166	1,108,084	412,562	15,901	6,877,701

Interest rate sensitivity

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

The company's interest rate risk arises from investments and cash and deposits. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net profit and other components of equity based on floating rate financial assets. The sensitivity of other components of equity is calculated by revaluing fixed rate FVOCI financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis.

Change in basis points 2021 JMD /USD	Effect on Profit before Taxation 2021 $'000	Effect on Other Components of Equity 2021 $'000	Change in basis points 2020 JMD / USD	Effect on Profit before Taxation 2020 $'000	Effect on Other Components of Equity 2020 $'000
-50/-100	11,727	2,187	-100/-100	(4,560)	12,049
+300/+100	(1,955)	(2,187)	+100/+100	4,560	(11,316)

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

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 equity price risk because of equity investments held and classified as fair value through profit or loss and are traded on the Jamaica Stock exchange. The impact of a 5% change (2020 – 10%) in quoted prices for equity, results in an increase/decrease in the carrying value of $24,663,000 (2020 - $34,576,000) in profit or loss.

The company is not exposed to commodity price risk.

(d) Impact of COVID-19

Management has considered the consequences of COVID-19 and other events and conditions, and it has determined that they do not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern. The main impact of COVID-19 has been the volatility in equity prices during the year. There was no significant impact on credit risk, liquidity risk or the company's approach to financial risk management.

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, the Financial Services Commission (FSC);
- To safeguard the company's ability to continue as a going concern so that it can continue to provide an appropriate level of return for its parent as well as 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, the Audit Committee and the Board of Directors and certified by the Appointed Actuary. 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 Capital Test (MCT) which is used by the FSC to determine the solvency of the company. The minimum standard stipulated by the Regulation 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) Regulations, 2013 is that a general insurance company shall have a minimum MCT percentage of 250%. This information is required to be included in the company's annual returns filed with the Financial Services Commission (FSC). Under Section 15(1) of the Insurance Act, 2011, the FSC may cancel the registration of a general insurance company if it is considered to be insolvent.

In January 2017, the FSC announced a measure to allow for relaxation of the required MCT ratio from 250% to 150% for a period of two years. The measure will reduce the amount of capital that the general insurance industry would need to hold for the purpose of meeting capital adequacy requirements. The main reason for the reduction of an insurer's MCT ratio should be due to the reorganisation of the company's investment portfolio to pursue local growth initiatives. During this period of regulatory forbearance, the FSC will carry out a Quantitative Impact Study (QIS) to determine an optimal position for the MCT that balances growth and stability of the insurance industry. As such, once the new MCT framework becomes effective, it will replace the current regime and the relaxed requirements will come to an end.

To qualify for the special provisions for relaxed MCT ratio, investment proposals must be approved by the FSC and commence within the 2-year window provided for in the January 2017 advisory.

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4. Capital Management (Continued)

The company took advantage of this relaxation through an investment in a Business Process Outsourcing project, and as such, the FSC granted forbearance on the MCT ratio requirement allowing the company to maintain a minimum MCT ratio of 235%.

This minimum MCT ratio must be maintained during the life of the investment or within the next five years, whichever comes first.

The MCT ratio for the company for the years ended 31 December 2021 and 2020 are as follows:

	2021	**2020**
Actual MCT ratio	266%	286%
Minimum Required MCT ratio	235%	235%

The company also has capital management requirements arising from its registration with regulators in the Commonwealth of Dominica and Turks & Caicos, which it has met. The company is also required to hold minimum levels of regulatory capital with its regulators in Turks & Caicos and the Commonwealth of Dominica which it has maintained (Notes 8 and 9).

5. Fair Value Estimates

(a) Valuation techniques and assumptions

Financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market 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 the 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 FVOCI 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 investment 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 these instruments are expected to reprice at the prevailing market rates.

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5. Fair Value Estimates (Continued)

(b) Fair value hierarchy

The financial instruments and non-financial instruments, carried at fair value, are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 includes instruments/property measured at quoted prices in active markets for identical assets or liabilities.
- Level 2 includes instruments/property measured using inputs, other than quoted prices, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments/property which are measured using valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Financial instruments
The following table provides an analysis of financial instruments held as at 31 December that, subsequent to initial recognition are measured at fair value:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		2021		
Fair value through OCI:				
Government of Jamaica	-	370,148	-	370,148
Fair value through profit and loss:				
Quoted equities	493,252	-	-	493,252
	493,252	370,148	-	863,400
Fair value through OCI:		2020		
Government of Jamaica securities	-	355,481	-	355,481
Fair value through profit and loss:				
Quoted equities	345,761	-	-	345,761
	345,761	355,481	-	701,242

Land & buildings
An independent valuation of the company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2020. The revaluation surplus, net of applicable deferred income taxes, was credited to other comprehensive income and is shown in capital and fair value reserves in shareholders' equity (Note 23). Fair values of land and buildings were derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity were adjusted for differences in key attributes such as property size. The most significant input into this valuation approach was price per square foot. The higher the price per square foot, the higher the fair value. The higher the price per square foot, the higher the fair value.

There was no movement between 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 reporting 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.

Fair value of financial assets determined using valuation techniques

As described in Note 5, where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

Fair value of land and buildings

Also, as discussed in Note 5, fair values of freehold properties were derived using the sales comparison approach, which references market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The most significant input into this valuation approach is price per square foot. Significant increases (decreases) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value.

Valuation of post-employment benefit obligation

Actuarial valuations are conducted to determine the cost of defined benefit pension plans and other post-employment benefits. These valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in these estimates, and the sensitivity of the estimate to changes in these assumptions, are contained in Note 21.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI requires the use of models and significant assumptions about future economic conditions and credit behaviour such as the likelihood of customers defaulting and the resulting losses.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing appropriateness of forward-looking information; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

Further details about judgements and estimates made by the company in the above areas are set out in Note 3(c)(i).

Critical judgements in determining the lease term

Extension and termination options are included in the property leases (office building). The extension and termination options held are exercisable only by the company and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the company is reasonably certain to exercise an extension option, or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the company.

The management has applied judgment that, for the office building, the extension option was included as it was reasonably certain that the company will continue the lease beyond the 3-year period.

7. Responsibilities of the Appointed Actuary and External Auditors

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

The shareholders, pursuant to the 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 Deposits

	2021 $'000	2020 $'000
Cash at bank and in hand	1,420,899	1,474,755
Short term investments (Note 9)	1,570,848	1,072,201
Cash and cash equivalents	2,991,747	2,546,956
Other deposits	78,727	72,809
	3,070,474	2,619,765

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 $4,201,000 (2020 – $8,601,000). Other deposits represent EC$1,380,000 (2020 - EC$1,380,000) which has been pledged with the regulator in the Commonwealth of Dominica.

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

	2021 %	2020 %
Jamaican dollar denominated	3.61	2.36
United States dollar denominated	-	2.00

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9. Investment Securities

Investments comprise the following:

	Years to Maturity					
	Within 1 year $'000	**1 to 5 years $'000**	**5 to 10 years $'000**	**Over 10 years $'000**	**Total 2021 $'000**	**Total 2020 $'000**
At amortised cost:						
Issued by:						
Government of Jamaica	175,500	1,131,112	197,883	177,047	1,681,542	943,314
Bank of Jamaica	77,216	52,766	-	-	129,982	198,680
Corporate -						
Bonds	574,656	662,018	-	-	1,236,674	1,252,609
Reverse repurchase agreements	580,312	74,124	-	-	654,436	1,284,472
Certificates of deposits	2,248,303	-	-	-	2,248,303	1,979,796
	3,655,987	1,920,020	197,883	177,047	5,950,937	5,658,871
Short term investments (Note 8)	(1,570,848)	-	-	-	(1,570,848)	(1,072,201)
	2,085,139	1,920,020	197,883	177,047	4,380,089	4,586,670
At fair value through other comprehensive income:						
Issued by:						
Government of Jamaica	-	180,677	189,471	-	370,148	355,481
At fair value through profit or loss:						
Quoted equity securities					493,252	345,761
					5,243,489	5,287,912

Investments include interest receivable of $45,551,000 (2020 – $60,676,000).

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 Government of Jamaica debt securities with a face value of $50,000,000, of which $50,000,000 has been pledged with the regulator, the Financial Services Commission, pursuant to Regulation 8(1)(b) of the Insurance Regulations, 2001. Also included are Certificates of Deposits valued at US$532,000; J$81,885,000 (2020 – US$532,000; J$75,389,000) which have been pledged with the regulator in Turks and Caicos.

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10. Receivables from Agents, Brokers and Policyholders

	2021 $'000	2020 $'000
Receivables from agents, brokers and policyholders –		
Agents and brokers	768,826	740,331
Policyholders	427,906	321,230
	1,196,732	1,061,561
Loss allowance	(6,318)	(6,946)
	1,190,414	1,054,615

11. Recoverable from Reinsurers and Co-insurers

	2021 $'000	2020 $'000
Claims recoverable from reinsurers and co-insurers	28,914	10,826
Reinsurers' portion of claims outstanding (Note 16)	947,749	467,018
Reinsurers' portion of unearned premiums (Note 16)	1,544,475	1,332,437
	2,521,138	1,810,281

12. Other Receivables

	2021 $'000	2020 $'000
Staff loans	2,549	2,023
Prepayments	130,499	101,269
	133,048	103,292

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13. Related Party Transactions and Balances

(a) The statement of financial position includes the following balances with key management personnel and directors of the company:

	2021 $'000	2020 $'000
Due from agents, brokers and policyholders		
Premium receivable	1,275	520

(b) The statement of financial position includes the following balances with group companies:

	2021 $'000	2020 $'000
Cash and short-term investments –		
Fellow subsidiaries	532,681	892,745
Investments –		
Fellow subsidiaries	315,277	501,275
Due from agents, brokers and policyholders –		
Fellow subsidiaries	149,974	126,241
Ultimate parent company	1,708	2,803
	151,682	129,044
Due from group companies -		
Fellow subsidiaries	291,159	179,817
Due to group companies -		
Fellow subsidiaries	27,778	21,364
Ultimate parent company	76,099	87,773
	103,877	109,137
Other payables – Fellow subsidiary	42,117	39,053
Due to reinsurers – Fellow subsidiary	315,855	245,051
Short-term loan – Fellow subsidiary	307,840	283,418
Claims outstanding (gross) -		
Fellow subsidiaries	52,921	52,010
Ultimate parent company	3,520	13,646
	56,441	65,656

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13. Related Party Transactions and Balances (Continued)

(c) Profit or loss includes the following transactions with key management personnel and directors of the company:

	2021 $'000	2020 $'000
Staff costs –		
Wages and salaries	49,334	38,467
Statutory contributions	3,221	4,526
	52,555	42,993
Directors' emoluments -		
Fees	2,601	1,729
Gross premiums written	1,565	841
Claims expense	-	304

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13. Related Party Transactions and Balances (Continued)

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

	2021 $'000	2020 $'000
Gross premiums written –		
Fellow subsidiaries	463,632	400,326
Parent company	2,885	2,674
Ultimate parent company	182,887	151,320
	649,404	554,320
Reinsurance ceded – Fellow subsidiaries	112,561	112,361
Commission income – Fellow subsidiaries	16,535	16,506
Commission expense – Fellow subsidiaries	217,385	130,865
Claims expense (gross) –		
Fellow subsidiaries	10,153	10,497
Ultimate parent company	1,271	9,602
	11,424	20,099
Administration expenses –		
Parent company	86,402	76,500
Fellow subsidiaries	140,666	123,355
	227,068	199,855
Other operating expenses –		
Allocation of central office expenses paid to parent company	267,957	205,497
Interest earned -		
Fellow subsidiaries	11,216	16,352
Ultimate parent company	-	7,549
	11,216	23,901
Management fee income	2,936	8,338
Management fee expense	7,500	10,103
Royalty expense – Fellow subsidiary	68,284	67,497

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14. Property, Plant and Equipment

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Right-of-Use Assets $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2021			
At Cost or Valuation -						
At 1 January 2021	486,000	462,992	180,405	214,561	23,497	1,367,455
Additions	250,628	3,559	12,410	10,196	12,185	288,978
Disposals	-	-	(10,296)	-	(6,045)	(16,341)
At 31 December 2021	736,628	466,551	182,519	224,757	29,637	1,640,092
Depreciation -						
At 1 January 2021	-	161,281	54,441	153,764	10,875	380,361
Charge for the year	6,367	44,688	22,736	18,483	5,440	97,714
On disposals	-	-	(5,466)	-	(6,045)	(11,511)
At 31 December 2021	6,367	205,969	71,711	172,247	10,270	466,564
Net Book Value -						
31 December 2021	730,261	260,582	110,808	52,510	19,367	1,173,528

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14. Property, Plant and Equipment (Continued)

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Right-of-Use Assets $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2020			
At Cost or Valuation -						
1 January 2020	427,000	459,595	166,461	211,699	22,772	1,287,527
Additions	305	3,397	13,944	3,684	6,612	27,942
Revaluation	58,695	-	-	-	-	58,695
Disposals	-	-	-	(822)	(5,887)	(6,709)
At 31 December 2020	486,000	462,992	180,405	214,561	23,497	1,367,455
Depreciation -						
At 1 January 2020	5,600	115,444	26,987	136,299	8,853	293,183
Charge for the year	5,605	45,837	27,454	18,279	5,064	102,239
Revaluation	(11,205)	-	-	-	-	(11,205)
On disposals		-	-	(814)	(3,042)	(3,856)
At 31 December 2020	-	161,281	54,441	153,764	10,875	380,361
Net Book Value -						
31 December 2020	486,000	301,711	125,964	60,797	12,622	987,094

Land and buildings are carried at fair market value based on a valuation in 2020 by D.C. Tavares & Finson Company Limited, professional valuators. If land and buildings were stated on the historical cost basis, the cost would be $323,030,000 (2020 – $72,402,000) with accumulated depreciation of $23,469,000 (2020 – $22,262,000).

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15. Intangible Assets

	Software Development in Progress	Policy Contracts	Computer Software	Total
	$'000	$'000	$'000	$'000
		2021		
At Cost -				
At 1 January 2021	46,419	606,574	86,820	739,813
Additions	-	-	9,360	9,360
At 31 December 2021	46,419	606,574	96,180	749,173
Amortisation -				
At 1 January 2021	-	599,829	67,632	667,461
Amortisation charge	-	4,370	10,296	14,666
At 31 December 2021	-	604,199	77,928	682,127
Net Book Value -				
31 December 2021	46,419	2,375	18,252	67,046
		2020		
At Cost -				
At 1 January 2020	46,419	632,788	86,127	765,334
Additions	-	-	693	693
Write-off	-	(26,214)	-	(26,214)
At 31 December 2020	46,419	606,574	86,820	739,813
Amortisation -				
At 1 January 2020	-	556,551	61,750	618,301
Amortisation charge	-	43,278	5,882	49,160
At 31 December 2020	-	599,829	67,632	667,461
Net Book Value -				
31 December 2020	46,419	6,745	19,188	72,352

The company assumed the complete portfolio of Jamaican policies held by Dyoll Insurance Company Limited in March 2005. 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, which commenced 1 January 2006. This asset was fully amortised in the prior year.

The company acquired the portfolio of Associated Owners Insurance Brokers Limited in March 2018. This intangible asset is being amortised over 10 years using the straight-line method.

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 cash generating unit and using a discount rate of 13.86%, calculating the present value of those future cash flows. Expected future cash flows are based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an estimated growth rate of 7.5%.

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16. Insurance Reserves

	2021 $'000	2020 $'000
Gross –		
Claims outstanding	4,077,684	3,208,957
Unearned premiums	3,284,146	3,006,685
Unearned commission	337,118	285,649
	7,698,948	6,501,291
Reinsurance ceded –		
Claims outstanding (Note 11)	947,749	467,018
Unearned premiums (Note 11)	1,544,475	1,332,437
	2,492,224	1,799,455
Net –		
Claims outstanding	3,129,935	2,741,939
Unearned premiums	1,739,671	1,674,248
Unearned commission	337,118	285,649
	5,206,724	4,701,836

An actuarial valuation was performed to value the policy and claims liabilities of the company as at 31 December 2021, in accordance with the Insurance Act of Jamaica, by the appointed actuary, Josh Worsham, FCAS, MAAA of Mid Atlantic Actuarial. 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 do 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.

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16. Insurance Reserves (Continued)

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 30 March 2022, the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2021 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:

	2021 $'000	**2020 $'000**
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	3,208,957	3,311,579
Reinsurance ceded	(467,018)	(673,075)
	2,741,939	2,638,504
Movement during the year –		
Claims incurred, including IBNR	1,981,193	1,654,406
Claims paid	(1,593,197)	(1,550,971)
	387,996	103,435
Net reserves for claims outstanding at end of year	3,129,935	2,741,939
Reinsurance ceded (Note 11)	947,749	467,018
Gross reserves for claims outstanding at end of year	4,077,684	3,208,957

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 reporting date. The reserve for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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17. Other Payables

	2021 $'000	2020 $'000
Due to agents, brokers & policyholders	139,460	145,627
Accruals	244,904	227,913
General Consumption Tax	52,679	42,734
Other	39,799	29,291
	476,842	445,565

18. Lease Liabilities

The lease liabilities recognised in the statement of financial position comprise of the following:

	2021 $'000	2020 $'000
Current	20,014	18,708
Non-Current	99,935	114,304
	119,949	133,012

The following amounts are recognised in the statement of comprehensive income:

	2021 $'000	2020 $'000
Depreciation charge on right-of-use assets (Note 14)	22,736	27,454
Interest expense on lease liabilities (Note 28)	8,207	9,053
Total expenses related to leases	30,942	36,507

The total cash outflow for leases in 2021 was $23,385,000 (2020 - $33,926,000).

The composition of right-of-use assets is as follows:

31 December 2021	Buildings $'000	Parking Lots $'000	Total $'000
Cost	162,974	17,431	180,405
Additions	12,410	-	12,410
Disposals	-	(10,296)	(10,296)
Accumulated depreciation	(64,576)	(7,135)	(71,711)
Net book value	110,808	-	110,808

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18. Leases Liabilities (Continued)

31 December 2020	**Buildings** **$'000**	**Parking Lots** **$'000**	**Total** **$'000**
Cost	159,323	7,138	166,461
Additions	3,651	10,293	13,944
Accumulated depreciation	(42,583)	(11,858)	(54,441)
Net book values	120,391	5,573	125,964

Lease activities

The company leases an office building. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights).

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

The buildings are rented for a fixed period between 1 - 11 years and parking lots 1-2 years with an option to renew the contract. The lease payments are fixed and adjusted for inflation. 85% of the total building space is rented out to a third party.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

To determine the incremental borrowing rate, the company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company and makes adjustments specific to the lease, eg term, country, currency and security.

Liabilities from financing activity – leases

	2021 **$'000**	**2020** **$'000**
Lease liabilities at the beginning of the year	133,012	143,941
Addition during the year (Note 14)	12,410	13,944
Disposal	(10,295)	-
Financing cash flows	(23,385)	(33,926)
Interest expense (Note 28)	8,207	9,053
Lease liabilities at the end of the year	119,949	133,012

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19. Deferred Income Taxes

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

Deferred tax assets and liabilities recognised in the statements of financial position are as follows:

	2021 $'000	**2020 $'000**
Deferred income tax assets	(157,939)	(169,651)
Deferred income tax liabilities	219,148	244,727
	61,209	75,076

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

	2021 $'000	**2020 $'000**
At beginning of year	75,076	88,076
Tax recognised in profit or loss (Note 29)	(6,924)	(45,095)
Tax recognised in other comprehensive income	(6,943)	32,095
At end of year	61,209	75,076

Deferred tax (credited)/charged against items of other comprehensive income is as follows:

	2021		
	Before tax $'000	**Tax credited $'000**	**After tax $'000**
Item that may be reclassified to profit or loss:			
Changes in the fair value of debt instruments at fair value through other comprehensive income	(9,832)	3,274	(6,558)
Item that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	(11,017)	3,669	(7,348)
	(20,849)	6,943	(13,906)

	2020		
	Before tax $'000	**Tax charged $'000**	**After tax $'000**
Item that may be reclassified to profit or loss:			
Changes in the fair value of debt instruments at fair value through other comprehensive income	3,549	(1,040)	2,509
Items that will not be reclassified to profit or loss:			
Gains on revaluation			
- Land	12,999	-	12,999
- Building	56,901	(18,967)	37,934
Re-measurements of post-employment benefit obligations	36,265	(12,088)	24,177
	109,714	(32,095)	77,619

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19. Deferred Income Taxes (Continued)

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

Deferred tax assets	Post-employment Benefits	Accelerated Depreciation	Other	Total
	$'000	$'000	$'000	$'000
At 1 January 2020	108,184	21,178	10,023	139,385
Recognised in profit or loss	9,832	40,702	(8,180)	42,354
Recognised in other comprehensive income	(12,088)	-	-	(12,088)
At 31 December 2020	105,928	61,880	1,843	169,651
Recognised in profit or loss	20,929	(35,745)	(565)	(15,381)
Recognised in other comprehensive income	3,669	-	-	3,669
At 31 December 2021	130,526	26,135	1,278	157,939

Deferred tax liabilities	Revaluation of Buildings	Interest Receivable	Foreign Exchange	Investment Securities	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2020	112,674	26,010	19,961	66,034	2,782	227,461
Recognised in profit or loss	-	(5,785)	17,205	(12,337)	(1,824)	(2,741)
Recognised in other comprehensive income	18,967	-	-	1,040	-	20,007
At 31 December 2020	131,641	20,225	37,166	54,737	958	244,727
Recognised in profit or loss	-	(3,641)	25,936	(43,642)	(958)	(22,305)
Recognised in other comprehensive income	-	-	-	(3,274)	-	(3,274)
At 31 December 2021	131,641	16,584	63,102	7,821	-	219,148

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19. Deferred Income Taxes (Continued)

These balances include the following:

	2021 $'000	2020 $'000
Deferred tax liabilities to be settled after more than 12 months	139,462	186,378
Deferred tax assets to be recovered after more than 12 months	156,661	167,808

20. Short-term Loans

	2021 $'000	2020 $'000
National Commercial Bank (Jamaica) Limited (i)	307,840	283,418
First Global Bank Limited (ii)	307,840	283,418
	615,680	566,836

(i) In February 2021, a US$2,000,000 revolving loan facility was obtained from National Commercial Bank (Jamaica) Limited for a tenor of 12 months from the initial date of disbursement. This loan was obtained for working capital purposes and has an interest rate of 4.5% per annum. The principal outstanding is due for repayment in full in February 2022; however, these amounts were repaid in January 2022.

(ii) In June 2021, a US$2,000,000 revolving loan facility was obtained from First Global Bank Limited for a tenor of 12 months from the date of initial disbursement. This loan was obtained for working capital purposes and has an interest rate of 4% per annum. Interest is payable monthly commencing 30 days after disbursement and the drawings are repayable in June 2022; however, these amounts were repaid in January 2022.

In the year ended 31 December 2021, the facilities in (i) and (ii) above were obtained in February 2020 and June 2020 respectively, for the same amounts and with the same terms. These drawdowns were repaid in January 2021.

Reconciliation of liability arising from financing activity

The table below details changes in the company's liability arising from financing activity, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the company's statement of cash flows as cash flows from financing activities.

	31 December 2020	Financing cash flows	Non-cash changes – foreign exchange movements	31 December 2021
	$'000	$'000	$'000	$'000
Short-term loans	566,836	45,046	3,798	615,680

21. Pensions and Other Post-Employment Obligations

Pensions

The company participates in a defined contribution pension scheme and a defined benefit pension scheme operated by the ultimate parent company, GraceKennedy Limited, and administered by Proven Fund Managers Limited, in which eligible permanent employees must participate.

Defined contribution scheme
The defined contribution pension scheme is open to Jamaican - based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was $31,521,000 (2020 - $25,741,000).

Defined benefit scheme
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 0.02% (2020 – 0.02%) as recommended by independent actuaries. Pension at normal retirement age is based on 2% final average earnings times the number of years of pensionable service. The final average earnings is the average of the highest three years annual salary earned by the member during his last ten years of service immediately preceding his actual retirement date, and in respect of which he had made contributions to the scheme. The scheme was closed to new members as at 31 March 2010. The company's contribution for the year was $79,000 (2020 - $130,000).

The group had a stated policy for charging the net defined benefit cost of the plan across participating subsidiaries. In the event of a plan surplus, the group was able to take a contribution holiday, while a funding deficiency required the group to make additional contributions to adequately fund the plan. At each valuation, the participating subsidiaries were allocated plan assets sufficient to at least cover the present value of the funded obligations.

Other post-employment obligations

The company participates in a number of other schemes operated by GraceKennedy Limited, which provide retirement benefits. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these post-employment benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

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

	2021 $'000	2020 $'000
Present value of unfunded obligations	369,551	317,781

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21. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations (continued)

The movement in the present value of unfunded obligation over the year is as follows:

	2021 $'000	2020 $'000
Balance at beginning of year	317,781	324,551
Current service cost	18,921	17,479
Past service cost	(292)	(5,950)
Interest cost	28,316	24,103
Total included in staff cost (Note 27)	46,945	35,632
Re-measurements:		
Losses/ (gains) from change in financial assumptions	2,801	(29,469)
Losses/(gains) from change in demographic assumptions	1,459	(12,829)
Experience losses	6,757	6,033
Total amount included in other comprehensive income	11,017	(36,265)
Benefits paid	(6,192)	(6,137)
Balance at end of year	369,551	317,781

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

	2021 $'000	2020 $'000
Gratuity Plan	29,254	23,035
Group Life Plan	102,619	76,841
Insured Group Health	157,162	130,013
Self-Insured Health Plan	74,450	82,291
Supplementary Pension Plan	6,066	5,601
	369,551	317,781

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	Impact on post-employment obligations		
	Change in Assumption	Increase in Assumption $'000	Decrease in Assumption $'000
Discount rate	1%	35,845	(46,924)
Medical inflation rate	1%	(47,528)	36,809

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21. Pensions and Other Post-Employment Obligations (Continued)

***Other post-employment obligations* (continued)**

Risks associated with pension plans and post-employment plans

Through its defined benefit pension plan and other post-employment benefits, the company is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities.

Inflation risk

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted.

Life expectancy

The majority of the plan’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan’s liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan’s risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for formulating and monitoring investment portfolios and investment strategies for the plan. The Committee is also responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. A large portion of assets in 2021 and 2020 consists of bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate by the company is 0.02% of pensionable salaries. The next triennial valuation is due to be completed for the plan’s financial position as at 31 December 2022.

The group considers contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment obligations is as follows:

Plans	**Years**
Gratuity Plan	10.3
Group Life Plan	21.6
Insured Group Health	22.1
Self-Insured Health Plan	12.6
Superannuation plan	7.6

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22. Share Capital

	2021 $'000	2020 $'000
Authorised, issued and fully paid -		
862,064,000 (2020 – 862,064,000) Ordinary shares at no par value	862,064	862,064
3,131,900 (2020- 3,131,900) Preference shares	429,675	429,675
	1,291,739	1,291,739

The preference shares are issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary, and carry no voting rights for the holder. The shares may not be redeemed at the request of 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. In any event, any redemption shall be subject to the approval, in writing, of the FSC.

Dividends for the preference shares are paid at the discretion of the Board of Directors but in any given financial year shall not exceed 8% of the total capital paid up on the preference shares and are not cumulative.

On 21 November 2021, the Board of Directors approved the payment of ordinary dividends of $100,000,000 ($0.12 per share). The dividends were paid in December 2021.

On 21 November 2021, the Board of Directors approved the payment of preference dividends of US$354,000 ($52,000,000, $16.60 per share). The dividends were paid in December 2021.

23. Capital and Fair Value Reserves

	2021 $'000	2020 $'000
Unrealised gains on investments held as FVOCI	54,324	64,156
Deferred tax	(25,474)	(28,748)
Unrealised surplus on the revaluation of property, plant and equipment	496,332	496,332
Deferred tax	(131,629)	(131,629)
	393,553	400,111

24. Interest Income

	2021 $'000	2020 $'000
Interest income -		
Debt investments held as amortised cost	245,511	216,516
Debt investments held as FVOCI	24,049	22,673
	269,560	239,189

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25. Other Income

	2021 $'000	2020 $'000
Dividend income	16,266	8,290
Gain/(loss) on investments	68,556	(142,514)
Gain on disposal of property, plant and equipment	2,632	1,324
Miscellaneous income	28,366	33,514
Net foreign exchange gains	140,289	69,937
Rental income	122,522	109,249
	378,631	79,800

26. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2021 $'000	2020 $'000
Advertising and public relations	31,357	26,457
Allocation of central office expenses paid to parent company (Note 13(d))	267,957	205,497
Amortisation of intangible assets (Note 15)	14,665	49,160
Asset tax	19,459	16,966
Auditor's remuneration	8,286	7,673
Bank charges	26,336	24,426
Data processing	128,176	118,928
Depreciation (Note 14)	97,714	102,239
Directors' fees (Note 13(c))	2,601	1,729
Miscellaneous	31,073	31,528
Occupancy - rent, utilities, insurance, security	59,840	70,289
Office expenses	17,835	14,663
Professional fees	31,153	15,482
Registration fees and stamp duty	28,155	29,723
Repairs and maintenance	14,538	10,822
Royalty expense (Note 13(d))	68,284	67,497
Staff costs (Note 27)	717,497	641,589
Strategic planning expenses	238	210
Underwriting expenses	65,495	61,790
	1,630,659	1,496,668

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27. Staff Costs

	2021 $'000	2020 $'000
Wages and salaries	481,001	436,987
Statutory contributions	57,044	46,817
Pension – defined contribution (Note 21)	31,521	25,741
Other post-employment obligations (Note 21)	46,945	35,632
Other	100,986	96,412
	717,497	641,589

28. Finance (Costs)/Income

	2021 $'000	2020 $'000
Interest expense - short-term loans	(12,490)	(4,428)
Interest expense - leases	(8,207)	(9,053)
	(20,697)	(13,481)
Foreign exchange (loss)/gain on short term loan	(3,798)	29,405
	(24,495)	15,924

29. Taxation

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

	2021 $'000	2020 $'000
Current taxation	69,993	224,775
Deferred taxation (Note 19)	(6,924)	(45,095)
	63,069	179,680

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

	2021 $'000	2020 $'000
Profit before taxation	546,468	563,921
Tax calculated at a tax rate of 33⅓%	182,156	187,974
Adjusted for the effects of –		
Expenses not deductible for tax purposes	6,500	29,807
Income not subject to tax	(877)	(2,208)
Dividend paid on preference shares	(17,333)	(31,468)
Other	(9,413)	(4,425)
Tax charge before credit/relief	161,033	179,680
Less: Urban Renewal tax credit (50% restriction) (i)	(69,992)	-
Urban Renewal tax relief on rental income (i)	(27,972)	-
	63,069	179,680

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(expressed in Jamaican dollars unless otherwise indicated)

29. Taxation (Continued)

(i) During the year, the company was designated as an approved developer under the Urban Renewal (Tax Relief) Act, 1995 in respect of improvement works to the building located 6-10 South Camp Road (Central Sorting Office). The incentive period is for 9 years commencing 1 January 2019. During this period, in accordance with the Act, the company is allowed to claim a tax credit against its income tax liability equivalent to 33 1/3% of the capital expenditure in each year of assessment in respect of any qualifying improvement works. The tax credit is restricted to 50% of the income tax liability for each year of assessment, and any unutilised portion may be carried forward and applied to the company's tax charge in subsequent years.

The company has, to date, spent $288,886,000 in qualifying expenditure, giving rise to a total available credit of $96,295,000, of which $69,992,000 was utilized in the current year. Subject to the agreement of the Taxpayer Audit and Assessment Department (TAAD), unutilised tax credits available for offset against future profits of the company amount to approximately $26,303,000.

In addition, the company is also entitled to claim tax relief on the net rental income earned from the improvement works against its income tax liability in the related year of assessment. The income for relief is net of the expenses that are wholly and exclusively incurred to acquire the income, and is also adjusted for expenses which are generally not tax deductible. The tax relief cannot be claimed if the company incurs a statutory loss and any unused portion of the tax relief cannot be carried forward to future years. Subject to the agreement of the TAAD, net rental income available for relief under the Act amounted to $83,916,000, resulting in tax relief of $27,972,000, which was offset against the current year’s income tax liability.

The application of the above tax credit of $69,992,000 and tax relief of $27,972,000 resulted in a total reduction of $97,964,000 in the company’s income tax expense for the current year.

30. Contingent Liabilities

The company is involved in certain legal proceedings incidental to the normal conduct of business. Management believes the reserves made in the accounts represent best estimate of the outcome of these proceedings.