



GK General Insurance Company Limited

**Financial Statements
31 December 2024**

GK General Insurance Company Limited

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31 December 2024

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Expression of Opinion

I have valued the policy liabilities of GK General Insurance Company Limited for its financial statements prepared in accordance with International Financial Reporting Standards for the year end 31 December 2024.

In my opinion, the valuation conforms to generally accepted actuarial practice, the amount of the policy liabilities held is appropriate and the financial statements fairly present the results of the valuation.



Christ Church, Barbados
31 March 2025

Bertha Pilgrim
Fellow, Institute and Faculty of Actuaries





Independent auditor's report

To the Members 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 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting 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 2024;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information 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 IFRS Accounting 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.



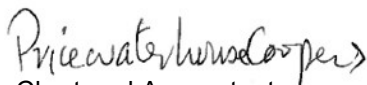
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we 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.


Chartered Accountants
Kingston, Jamaica
31 March 2025

GK General Insurance Company Limited

Statement of Financial Position

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2024 \$'000	2023 \$'000
Assets			
Cash and cash equivalents	8	1,568,768	2,695,643
Restricted deposits	8	108,250	107,515
Investment securities	9	10,478,084	8,185,346
Receivables from brokers	10	720,375	680,354
Insurance and reinsurance contract assets	11	-	40,986
Other receivables	13	429,841	430,574
Withholding tax recoverable		54,893	274,383
Due from group companies	14	476,843	236,684
Property, plant and equipment	15	1,332,792	1,158,359
Intangible assets	16	64,959	69,146
Deferred tax assets	19	-	20,278
		<u>15,234,805</u>	<u>13,899,268</u>

GK General Insurance Company Limited

Statement of Financial Position (Continued)

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2024 \$'000	2023 \$'000
Liabilities and Shareholder's Equity			
Liabilities			
Insurance and reinsurance contract liabilities	11	8,067,007	7,051,354
Other payables	17	910,113	865,363
Income tax payable		107,794	10,176
Due to group companies	14	170,135	180,022
Lease liabilities	18	125,487	98,486
Deferred tax liabilities	19	5,712	-
Short-term loans	20	-	308,536
Post-employment benefit obligations	21	462,164	393,446
		<u>9,848,412</u>	<u>8,907,383</u>
Shareholder's Equity			
Share capital	22	1,291,739	1,291,739
Capital and fair value reserves	23	568,725	424,193
Share options reserve		15,193	15,193
Retained earnings		<u>3,510,736</u>	<u>3,260,760</u>
		<u>5,386,393</u>	<u>4,991,885</u>
		<u>15,234,805</u>	<u>13,899,268</u>

Approved for issue by the Board of Directors on 31 March 2025 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 2024

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2024 \$'000	2023 \$'000
Insurance revenue	11	11,147,931	9,625,410
Insurance service expenses	11	(6,090,926)	(5,502,674)
Net expenses from reinsurance contracts	11	<u>(4,345,813)</u>	<u>(3,737,380)</u>
Insurance service result		711,192	385,356
Interest income	24	744,260	640,704
Finance income from insurance contracts	11	73,987	115,005
Finance income from reinsurance contracts	11	<u>(32,884)</u>	<u>5,048</u>
Net insurance and investment result		1,496,555	1,146,113
Other operating income	25	220,520	223,110
Other operating expenses	26	<u>(820,189)</u>	<u>(693,619)</u>
Profit before taxation		896,886	675,604
Taxation	28	<u>(428,221)</u>	<u>(175,767)</u>
Net profit		<u>468,665</u>	<u>499,837</u>
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss</i>			
Changes in the fair value of financial assets at fair value through other comprehensive income, net of taxes		(152)	-
<i>Items that will not be reclassified to profit or loss</i>			
Gains on revaluation of land and buildings, net of taxes		144,684	-
Re-measurements of post-employment benefit obligations, net of taxes	21	<u>(11,905)</u>	<u>(84,622)</u>
Other comprehensive income, net of taxes		<u>132,627</u>	<u>(84,622)</u>
Total comprehensive income		<u>601,292</u>	<u>415,215</u>

GK General Insurance Company Limited

Statement of Changes in Shareholder's Equity

Year ended 31 December 2024

(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 31 December 2022	1,291,739	424,193	11,899	2,991,139	4,718,970
Net profit	-	-	-	499,837	499,837
Other comprehensive income:					
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(84,622)	(84,622)
Other comprehensive income, net of taxes	-	-	-	(84,622)	(84,622)
Total comprehensive income	-	-	-	415,215	415,215
Transactions with owners:					
Dividends on preference shares	-	-	-	(51,194)	(51,194)
Dividends on ordinary shares	-	-	-	(94,400)	(94,400)
Employee share option scheme:					
Value of services rendered	-	-	3,294	-	3,294
Balance at 31 December 2023 (Note 31)	1,291,739	424,193	15,193	3,260,760	4,991,885
Net profit	-	-	-	468,665	468,665
Other comprehensive income:					
Changes in the fair value of financial assets at fair value through other comprehensive income, net of taxes	-	(152)	-	-	(152)
Gains on revaluation of land and buildings, net of taxes	-	144,684	-	-	144,684
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(11,905)	(11,905)
Other comprehensive income, net of taxes	-	144,532	-	(11,905)	132,627
Total comprehensive income					
Transactions with owners:					
Dividends on preference shares (Note 22)	-	-	-	(56,784)	(56,784)
Dividends on ordinary shares (Note 22)	-	-	-	(150,000)	(150,000)
Employee share option scheme:					
Value of services rendered	-	-	-	-	-
Balance at 31 December 2024	1,291,739	568,725	15,193	3,510,736	5,386,393

GK General Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2024 \$'000	2023 \$'000
Cash Flows from Operating Activities			
Premiums received	11	11,225,458	10,055,872
Reinsurance paid	11	(3,866,583)	(4,334,183)
Insurance service expenses	11	(5,511,679)	(5,450,942)
Recoveries from reinsurance	11	(54,556)	1,114,499
Withholding tax received/(paid)		219,490	(211,435)
Rent received		136,173	130,576
Underwriting, administration and other operating expenditure paid		(2,742,080)	(586,105)
Other receipts, net		(199,285)	118,395
Cash generated from operations		(793,062)	836,677
Interest paid		(12,425)	(11,133)
Taxation paid		(31,421)	(209,814)
Net cash (used in)/provided by operating activities		(836,908)	615,730
Cash Flows from Investing Activities			
Interest received		665,179	472,306
Proceeds from sale of investment securities		1,255,876	1,402,028
Investment securities purchased		(1,530,687)	(1,553,244)
Proceeds from disposal of property, plant and equipment		1,909	-
Additions to property, plant and equipment	15	(129,765)	(48,158)
Additions to intangible assets	16	(26,852)	(944)
Net cash provided by investing activities		235,660	271,988
Cash Flows from Financing Activities			
Preference dividends paid	22	(56,784)	(55,600)
Ordinary dividends paid	22	(150,000)	(94,400)
Principal elements of lease payments	18	(22,853)	(19,485)
Proceeds from short-term loans		625,248	613,958
Payments of principal on short-term loans		(933,068)	(608,979)
Net cash used in financing activities		(537,457)	(164,506)
Net (decrease)/increase in cash and cash equivalents		(1,138,705)	723,212
Cash and cash equivalents at beginning of year		2,695,643	1,925,361
Effects of exchange rate changes on cash and cash equivalents		11,830	47,070
Cash and Cash Equivalents at End of Year	8	1,568,768	2,695,643

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

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.
- (c) The company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal activity is the underwriting of general insurance business. The company also issues insurance contracts in territories outside of Jamaica through brokers GK Insurance Brokers Limited (Turks & Caicos) and Cabrits Insurance Agency (Commonwealth of Dominica).

2. Material 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 Accounting Standards), as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS Accounting Standards 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS Accounting Standards 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 2024 which are relevant to the company's operations

Certain new accounting pronouncements (standards, amendments or interpretations to existing standards) issued by the International Accounting Standards Board (IASB) are mandatorily effective for accounting periods that begin on or after 1 January 2024. Management has reviewed these pronouncements and has identified the following as relevant to the preparation of the company's financial statements.

- **Amendment to IFRS 16, 'Leases' - Leases on sale and leaseback (effective for annual periods beginning on or after 1 January 2024).**
These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
- **Amendment to IAS 1 – Non-current liabilities with covenants, (effective for annual periods beginning on or after 1 January 2024).**
These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(a) Basis of preparation (continued)

- **Amendment to IAS 7 and IFRS 7, Supplier finance (effective for annual periods beginning on or after 1 January 2024)**

These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

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 2025 or later periods, and which the company has not early adopted. Management has assessed all such pronouncements, has identified the following as relevant, and has determined that none of these are expected to have a significant impact on the company's financial statements.

- **Amendments to IAS 21 - Lack of exchangeability (effective for annual periods beginning on or after 1 January 2025).**

An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

- **Amendment to IFRS 9 and IFRS 7 - Classification and measurement of financial instruments (effective for annual periods beginning on or after 1 January 2026)**

These amendments:

- clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
- make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

- **IFRS 18, 'Presentation and Disclosure in Financial Statements'** (effective for annual periods beginning on or after 1 January 2027).

This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance
- measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

Management has concluded that all other standards, interpretations, and amendments to existing standards, which are published but not yet effective are not relevant to its operations or contain inconsequential clarifications that will have no material impact when they come into effect.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material 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, balances with brokers, other receivables and payables, and balances with group companies.

Classification and measurement

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

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

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 held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest (SPPI). 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 (SPPI). 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. An irrevocable election can be made (on an instrument-by-instrument basis) to designate assets as FVPL if doing so eliminates or significantly reduces an accounting mismatch. 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

There are two measurement categories under which an equity instrument may be classified:

- *FVPL* - Default classification for all equity instruments.
- *FVOCI (without recycling)* - Irrevocable election (on an instrument-by-instrument basis) on the date of acquisition. Designation is not permitted if the equity instrument is held for trading.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(c) Financial instruments (continued)

Equity instruments held for trading are measured at FVPL. Where the company 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.

Business model assessment

The company determines its investment business model by considering its insurance activities. In addition, judgment is used in concluding which model aligns best with its core business objectives and practices. Factors that are used in business model decisions include how insurance business generate benefits, significant risks facing the business on asset and liability fronts, how compensation is determined for portfolio managers responsible for managing investments, as well as historical and projected turnover of the investment portfolio to fund insurance business on a day-to-day basis.

SPPI assessment

Financial assets which are held for collection of contractual cash flows, and held for collection of contractual cash flows and for selling the financial assets comprise SPPI. Contractual cash flows generally meet SPPI criteria if such cash flows reflect compensation for basic credit risk and customary returns from a debt instrument which also includes time value for money. Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Classification	Financial instrument	Description	Initial and subsequent measurement
FVOCI	None		
FVPL	Quoted equities	Common stock portfolio.	Initially measured at fair value using transaction prices at the trade date. Subsequently measured at fair value using bid prices (for financial assets) or ask prices (for financial liabilities) at end of period, with changes in fair value recognized in Net gains (losses) on investment portfolio.
Amortised costs – financial assets	Cash, and cash equivalents	Cash and highly liquid investments held to meet short-term requirements, that are readily convertible into a known amount of cash, are subject to an insignificant risk of changes in value and have an original maturity of three months or less.	Initially measured at fair value using transaction prices at the transaction/trade date. Subsequently measured at amortised cost using the effective interest method.
	Restricted deposits	Cash balance maintained to meet regulatory requirement	
	Debt securities (TBills, CDs, Bonds, Reverse repos)	Investments intended to be held for an indefinite period and which may be sold in response to liquidity needs or changes in market conditions.	
	Receivables (broker, group, other)	Operating financial assets with fixed or determinable payments.	

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(c) Financial instruments (continued)

Classification	Financial instrument	Description	Initial and subsequent measurement
Amortised costs – financial liabilities	Debt (lease liabilities, short-term loans)	Financial liabilities with fixed or determinable payments and maturity date.	Initially measured at fair value at the issuance date, net of transaction costs. Subsequently measured at amortised cost using the effective interest method.
	Payables (group, other)	Operating financial liabilities with fixed or determinable payments.	Initially measured at fair value at the amount owing. Subsequently measured at amortized cost using the effective interest method.

Fair value measurement

The determination of the fair values of the company's financial instruments is discussed in Note 5.

Derecognition of financial assets and financial liabilities

Financial assets are no longer recognised when the rights to receive cash flows from the instruments have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are no longer recognised when they have expired or have been cancelled.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset, and the net amount is recognised on the statement of financial position only when there is:

- A legally enforceable right to offset the recognised amounts; and
- An intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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. The impairment methodology applied depends on whether there has been a significant increase in credit risk or an actual default.

Application of the ECL General Model

The company has applied the 'general model', as required under IFRS 9, for financial assets other than receivables (see *Application of the Simplified Approach* below). 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. 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.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(c) Financial instruments (continued)

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 Probability of Default (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.

Application of the Simplified Approach

For receivables (brokers, group, other), 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.

(d) Insurance contracts

Definitions and classification

Insurance contracts are contracts under which the company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The company uses judgment to assess whether a contract transfers insurance risk and whether the accepted insurance risk is significant.

The company issues insurance contracts in the normal course of business (direct business) and holds reinsurance contracts (ceded business), under which it is compensated by other entities for claims arising from one or more insurance contracts issued by the company. All of the company's insurance contracts transfer significant insurance risk.

The company does not issue insurance contracts with direct or indirect participating features, nor any features that should be accounted for separately in accordance with IFRS 17's requirements.

The company has chosen to apply the simplified measurement model, the Premium Allocation Approach ("PAA"), for all of its insurance and reinsurance contracts.

Insurance and reinsurance contracts are assessed to determine whether they contain components which must be accounted for under an IFRS other than the insurance contract standard. The company's insurance and reinsurance contracts do not include such components.

GK General Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

Level of aggregation

The unit of account is a group of contracts, so insurance and reinsurance contracts are aggregated into portfolios and groups for measurement purposes. Portfolios comprise contracts with similar risks which are managed together. The company divides its direct and ceded business into portfolios. Management uses judgment in establishing its various portfolios, and the drivers considered include the main geographic areas, lines of businesses, and distribution channels. Portfolios are then divided into groups of contracts based on expected profitability. Groups do not contain contracts issued more than one year apart since they are further subdivided into annual cohorts.

Each annual cohort is then further subdivided into three groups based on the profitability of contracts determined at initial recognition and comprising:

- Contracts that are onerous;
- Contracts that have no significant possibility of becoming onerous; (based on the probability that changes in assumptions would result in contracts becoming onerous); and
- All remaining contracts.

Reinsurance contracts held are also subdivided into three profitability groups, determined by reference to net gains/losses on initial recognition, and comprising:

- Contracts that have a net gain at initial recognition;
- Contracts that have no significant possibility of a net gain arising subsequently; and
- All remaining contracts.

For contracts measured under the PAA, IFRS 17 permits a simplification whereby contract groups are assumed not to be onerous unless facts and circumstances indicate otherwise. The company has used internal management information to identify facts and circumstances that may indicate that a group is onerous. (See “*Onerous contracts*” below.)

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities are presented separately in the balance sheet.

Portfolios and groups may change prospectively if there are changes to how the company manages its business.

Recognition

The company initially recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date; or
- The issue date when the group of insurance contracts is onerous.

The company initially recognises a group of reinsurance contracts held:

- From the beginning of the coverage period of the group unless the reinsurance contracts provide proportionate coverage, in which case it is from the later of the beginning of the coverage period of the group, or the initial recognition of any underlying contract; or
- The date the company recognizes an onerous group of underlying insurance contracts if the company entered into the related reinsurance contract at or before that date.

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2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

Groups of contracts are established on initial recognition. The company adds new contracts to the group when they individually meet the criteria above. Composition of groups is not revised subsequently.

Contract boundary and fulfilment cash flows

Fulfilment cash flows ("FCF") are the current estimates of the future cash flows within the contract boundary of a group of contracts that the company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- Are based on a probability-weighted mean of the full range of possible outcomes;
- Are determined from the perspective of the company, provided that the estimates are consistent with observable market prices for market variables; and
- Reflect conditions existing at the measurement date.

The measurement of groups of insurance and reinsurance contracts includes all the future cash flows within the boundary of each contract.

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or has a substantive obligation to provide the policyholder with services.

A substantive obligation or right ends when the entity has the practical ability to reassess risks and can set a price or level of benefits that fully reflects those risks.

Insurance acquisition costs

The company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

- To that group; and
- To groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Measurement model

Premium Allocation Approach

The vast majority of the company's business has a duration of one year or less and is automatically eligible for the PAA model. For the remainder, financial modelling is performed to compare the value of the LRC measured under the General Measurement Model ("GMM") and PAA. Where the LRC does not materially differ between the two measurement models (over the duration of the contract and in a range of reasonably foreseeable scenarios) the contract group is PAA eligible.

GK General Insurance Company Limited

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2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

The company applies the PAA when measuring the Liability for Remaining Coverage ("LRC") as follows:

Topic	Description
Overview	<p>The PAA is a simplified measurement model which may be applied to insurance contracts when:</p> <ul style="list-style-type: none"> • The coverage period is one year or less; or • For contracts longer than one year if there is no material difference in the liability for remaining coverage measured under both the PAA and the GMM.
Contracts applying this model	The company applies the PAA to all of its insurance and reinsurance contracts.
Initial and subsequent measurement - LRC	<p>The Liability for Remaining Coverage ("LRC") includes:</p> <ul style="list-style-type: none"> • Premiums received; • Minus insurance acquisition cash flows paid net of the amortisation of the insurance acquisition cash flows recognised; • Minus amounts recognised as insurance revenue for the services provided, generally allocated based on the passage of time which is usually 12 months, and • Loss component for onerous contracts.
Premium receipts	<p>Premium receipts are recognised in profit or loss over the life of the contract, based on the expected timing of incurred claims.</p> <p>Where policyholder premiums are yet to be remitted by brokers, these premiums are treated as received within the LRC with a separate financial asset recognised for the amounts due from brokers.</p>
Insurance acquisition cash flows	<p>Insurance acquisition cash flows are costs directly attributable to selling or underwriting a portfolio of insurance contracts and are presented in the liability for remaining coverage. These cash flows include:</p> <ul style="list-style-type: none"> • Direct costs such as commissions and premium taxes; and • An allocation of indirect costs such as salaries, rent and technology costs. <p>Management uses judgment in determining the drivers used to allocate indirect costs to groups of insurance contracts</p>
Onerous contracts	<p>The company assumes that no contracts in a portfolio are potentially onerous at initial recognition unless facts and circumstances indicate otherwise.</p> <p>The company has developed a methodology for identifying indicators of possible onerous contracts, which includes internal management information on planning information, forecast information and historical experience. In addition, the company has developed models for measuring potential onerous contract losses.</p>

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Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

Topic	Description
Other elections	<p>The company has elected to:</p> <ul style="list-style-type: none"> Not discount the liability for remaining coverage under the PAA; and Capitalise all insurance acquisition cash flows to the related group and amortise these costs over the coverage period of the related group.
Reinsurance contracts	<p>Reinsurance contracts are measured on the same basis as insurance contracts, except:</p> <ul style="list-style-type: none"> They are adapted to reflect the features of reinsurance contracts that differ from insurance contracts, for example the generation of expenses or reduction in expenses rather than revenue; They include an allowance for non-performance risk by the reinsurer (which is presented in net expense from reinsurance contracts); and The risk adjustment represents the amount of risk being transferred to the reinsurer.

For contracts measured under the PAA, the company measures the Liability for Incurred Claims ("LIC") as follows:

Topic	Description
Liability for incurred claims - LIC	<p>Generally, the liability for incurred claims is discounted to consider the time value money. However, for contracts measured under the PAA only, the company is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid or received in one year or less from the date the claims are incurred.</p> <p>The company has elected to discount all of its liability for incurred claims.</p> <p>The company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flow. They reflect current estimates from the perspective of the company and include an explicit risk adjustment.</p> <p>(See "Discount rate" below)</p>

Initial and subsequent measurement

Insurance contract liabilities

For insurance contracts issued, insurance acquisition cash flows allocated to a group are deferred and recognised over the coverage period of contracts in a group.

For insurance contracts issued, on initial recognition, the company measures the LRC at the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows.

GK General Insurance Company Limited

Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- The Liability for Remaining Coverage ("LRC"); and
- The Liability for Incurred Claims ("LIC"), comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- Increased for premiums received in the period, excluding amounts that relate to premium receivables included in the LIC;
- Decreased for insurance acquisition cash flows paid in the period;
- Decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period; and
- Increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

Reinsurance contract assets

The excess of loss reinsurance contracts held provide coverage on insurance contracts originated for claims incurred during an accident year and are accounted for under the PAA.

For reinsurance contracts held, on initial recognition, the company measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- The remaining coverage; and
- The incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- Increased for ceding premiums paid in the period;
- Increased for broker fees paid in the period; and
- Decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period.

The company does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less. For contracts measured under the PAA, future cash flows for LIC are adjusted for the time value of money, since insurance contracts issued by the company typically have a settlement period of over one year.

Onerous contracts

A group of contracts is onerous at initial recognition if there is a net outflow of fulfilment cash flows. As a result, a liability for the net outflow is recognised as a loss component within the liability for remaining coverage and a loss is recognised immediately in insurance service expense. The loss component is then amortised over the coverage period to offset incurred claims in insurance service expense. The loss component is measured on a gross basis but may be mitigated by a loss recovery component if the contracts are covered by reinsurance.

GK General Insurance Company Limited

Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

(d) Insurance contracts (continued)

At initial recognition, the loss recovery component is calculated by multiplying the initial loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the company expects to recover from the group of reinsurance contracts. The loss recovery component is included in the asset for remaining coverage and the recovery is recognized immediately in income from reinsurance contracts. The loss recovery is subsequently amortized in Income from reinsurance contracts.

During the coverage period, if facts and circumstances indicate that a group of insurance contracts is potentially onerous, the company applies the same analysis it has performed for groups potentially onerous at initial recognition.

Discount rate

The Liability for Incurred Claims (LIC) under the PAA is discounted.

Estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgment and estimation.

Risk adjustment

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for LIC. It reflects the compensation that the company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the company fulfils insurance contracts. Unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the company to the reinsurer.

Modification and derecognition

The company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished; or
- The contract is modified such that it results in a change in the measurement model, substantially changes the contract boundary, or requires the modified contract to be included in a different group.

In such cases, the company derecognises the initial contract and recognizes the modified contract as a new contract. When a modification is not treated as a derecognition, the company recognises amounts paid or received for the modification as an adjustment to the relevant liability for remaining coverage.

(e) Insurance service result

The insurance service result represents the company's profit or loss recognised on insurance contracts and reinsurance contracts in the period, excluding the impact of the time value of money and financial risks related to such contracts. The insurance service result contains three components:

Insurance revenue

For insurance contracts applying the premium allocation approach (PAA), insurance revenue is based on the amount of expected premium receipts allocated to insurance contracts in the period. Premium receipts are allocated to insurance contracts based upon the passage of time or, where there is evidence that the release of risk differs from the passage of time, on the basis of the expected timing of insurance service expenses.

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2. Material Accounting Policies (Continued)

(e) Insurance service result (continued)

Insurance service expenses

Insurance service expenses include the following:

- Incurred claims and benefits, reduced by loss component allocations;
- Other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
- Insurance acquisition cash flows amortisation;
- Changes that relate to past service – changes in the FCF relating to the LIC; and
- Changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses; and
- Insurance acquisition cash flows assets impairment.

Amortisation of insurance acquisition cash flows is based on the passage of time. Other expenses not meeting the above categories are included in other operating expenses in the statement of comprehensive income.

Net expense from reinsurance contracts

The company presents financial performance of groups of reinsurance contracts held on a net basis in net income (expenses) from reinsurance contracts held, comprising the following amounts:

- Reinsurance expenses;
- Incurred claims recovery, reduced by loss-recovery component allocations;
- Other incurred directly attributable expenses;
- Changes that relate to past service – changes in the FCF relating to incurred claims recovery;
- Effect of changes in the risk of reinsurers' non-performance; and
- Amounts relating to accounting for onerous groups of underlying insurance contracts issued.

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the company expects to pay in exchange for those services. Broker fees are included within reinsurance expenses.

The company recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses. Ceding commissions that are contingent on claims of the underlying contracts issued reduce incurred claims recovery.

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Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

(e) Insurance service result (continued)

Finance income or expense from insurance contracts

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

For contracts measured under the PAA, these amounts are included in profit or loss for the period to which they relate and mainly comprise:

- Interest accreted on the LIC; and
- The effect of changes in interest rates and other financial assumptions.

The company disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

The groups of insurance contracts that generate cash flows in a foreign currency are treated as monetary items. Applying IAS 21 at the end of the reporting period, the carrying amount of the group of insurance contracts is translated into the functional currency at the closing rate. The company has chosen to present the resulting foreign exchange differences within the line item 'finance income/expenses from insurance contracts'.

Finance income from reinsurance contracts

The Company presents financial performance of groups of reinsurance contracts held on a net basis in finance income from reinsurance contracts held, comprising the following amounts:

- a. changes that relate to past service – changes in the FCF relating to incurred claims recovery;
- b. effect of changes in the risk of reinsurers' non-performance; and f. amounts relating to accounting for onerous groups of underlying insurance contracts issued.

(f) Other operating income and expense

Other operating income includes non-insurance and non-investment related gains that is recognised in the profit or loss when become due to the company.

Other operating expenses include expenses that are not directly attributable to insurance contracts, the amortisation of acquired intangible assets, and administration expenses.

(g) 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.

GK General Insurance Company Limited

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2. Material Accounting Policies (Continued)

(g) Insurance reserves (continued)

Liabilities for Incurred Claims

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.

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.

Liabilities for Remaining Coverage

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.

(h) Property, plant and equipment and depreciation

Land and buildings are stated 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.

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

GK General Insurance Company Limited

Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

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

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.

(i) 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

(j) 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.

(k) 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 lease commencement date.

The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The company presents right-of-use assets in property, plant and equipment, and the cost is subsequently depreciated using the straight-line method 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 is 1 – 11 years. Depreciation expense is presented in insurance service expense or other income and expense.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the company's incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentive receivable, and exclude operational costs and variable lease payments. The lease liability is subsequently measured at amortised cost using the effective interest method. Each lease payment is allocated between the liability and finance cost. Lease liabilities are included on the face of the statement of financial position, and the associated interest expense is presented in other finance costs in computing profit or loss.

GK General Insurance Company Limited

Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

(k) Leases (continued)

Payments associated with all short-term leases (12 months or less) and certain leases of all low-value assets (computers, tablets, mobile phones and small office furniture) 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 are recognised as an expense on a straight-line basis over the lease term.

As a sublessor

The company is a sublessor (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 leases, the intermediate lessor derecognises the right-of-use asset relating to the head lease 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.

(l) 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.

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Notes to the Financial Statements

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2. Material Accounting Policies (Continued)

(l) Income taxes (continued)

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

Deferred 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.

(m) Employee benefits

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.

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.

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.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2024

(expressed in Jamaican dollars unless otherwise indicated)

2. Material Accounting Policies (Continued)

(m) Employee benefits (continued)

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.

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.

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.

(n) 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 services

Insurance revenue represent amounts invoiced for insurance contracts that have been accepted by the company during the year. They are recognised on a pro-rata basis over the life of the policies written. The company uses reinsurance contracts to manage the risk associated with these insurance 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.

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2. Material Accounting Policies (Continued)

(o) Dividend distribution

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

3. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors, pursuant to the Insurance Act, appoints the actuary. During the year, Bertha Pilgrim, FIA, MAAA, of Eckler Limited was appointed as the company's 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 (Note 11).

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.

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on the recognised amounts of assets and liabilities, disclosure of contingent assets and liabilities as at reporting date, as well as amounts of revenues and expenses recognised during the reporting period. 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. Actual results could differ significantly from these estimates. The key estimates and assumptions that have a risk of causing a material adjustment to the carrying amount of certain assets and liabilities are listed below and discussed in more detail in the referenced notes.

Note	
11	<p><i>Insurance and reinsurance contracts</i></p> <p>In applying IFRS 17, judgement will be required for certain key aspects of application and inputs and methods will be used that include significant estimates, in particular in the determination of liabilities arising from claims under insurance contracts.</p>
5	<p><i>Fair value of land and buildings</i></p> <p>Fair values of freehold properties are 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.</p>
21	<p><i>Valuation of post-employment benefit obligation</i></p> <p>Due to the complexity of the actuarial valuation of these liabilities, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.</p>
6	<p><i>Measurement of the expected credit loss allowance</i></p> <p>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.</p>
18	<p><i>Determining the lease term</i></p> <p>Management has applied judgment for the extension of the lease term.</p>

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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, fair values presented are 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. There were no such securities at reporting date.
- (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.

Land and 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 2024. 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.

Significant increases (decreases) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value.

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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	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
	2024			
Fair value through profit or loss:				
Quoted equities	516,375	-	-	516,375
	2023			
Fair value through profit or loss:				
Quoted equities	442,561	-	-	442,561

There was no movement between levels during the year.

Land and buildings

Land and buildings have been classified as Level 3, in the current and in previous years, because there have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale, quality of land and buildings and improvements.

6. Financial Risk Management

Risk management framework

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.

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6. Financial Risk Management (Continued)

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:

(v) 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.

(vi) 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 risk (Note 12), and financial risks - credit, liquidity, market and other operational risk. Market risk includes currency risk, interest rate and other price risk.

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).

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.

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6. Financial Risk Management (Continued)

(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 brokers, reinsurance contract assets, 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.

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6. Financial Risk Management (Continued)

(i) Credit risk (continued)

Exposure to credit risk

	Note	2024 \$'000	2023 \$'000
<i>Subject to expected credit losses:</i>			
Cash and deposits	8	1,677,018	2,803,158
Financial assets at amortised cost	9	9,961,709	8,622,325
Receivables from brokers	10	720,375	680,354
Reinsurance contract assets	11	-	40,986
Other receivables	13	584,913	347,835
Due from group companies	14	476,843	236,684
		<u>13,420,858</u>	<u>12,731,342</u>

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.

Amounts due from brokers

Note 10 summarises the company's credit exposure for amounts due from brokers at their carrying amounts.

Debt securities

The following table summarises the company's credit exposure for debt securities at their carrying amounts, as categorised by issuer (Note 9):

	2024 \$'000	2023 \$'000
Government of Jamaica	1,256,718	1,743,453
Bank of Jamaica	209,638	860,522
Corporate	8,615,460	6,018,350
	<u>10,081,816</u>	<u>8,622,325</u>

Impairment of financial assets

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

- Receivables from brokers;
- Other receivables;
- Reinsurance contract assets;
- Intercompany receivables;
- Cash and deposits;
- Debt investments carried at amortised cost.

While reinsurance contract assets, intercompany receivables and cash and deposits are subject to the impairment requirements of IFRS 9, no impairment losses were identified for these assets.

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6. Financial Risk Management (Continued)

(i) Credit risk (continued)

Receivables from brokers

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 brokers.

To measure the expected credit losses, receivables from brokers have been grouped based on shared credit risk characteristics and the days past due. The two key categories considered are broker 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.

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

As at 31 December 2024	0 - 30 Days	31 - 60 Days	61 - 90 Days	91-120 Days	More than 121 Days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Broker receivables	-	406,592	105,325	147,766	63,019	722,702
Expected loss rate		0.16%	0.23%	0.48%	1.15%	
Loss allowance	-	651	242	709	725	2,327

As at 31 December 2023	0 - 30 Days	31 - 60 Days	61 - 90 Days	91-120 Days	More than 121 Days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Broker receivables	-	110,042	240,974	89,107	245,918	686,041
Expected loss rate		0.44%	0.31%	0.64%	1.58%	
Loss allowance	-	484	747	570	3,886	5,687

The loss allowance for receivables from brokers is as follows:

	2024	2023
	\$'000	\$'000
At 1 January	5,687	9,530
Recognised in profit or loss during the year	(3,360)	(3,843)
At 31 December	2,327	5,687

Receivables from brokers 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 one year, and alternative methods of debt collection have been exhausted.

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6. Financial Risk Management (Continued)

(i) Credit risk (continued)

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.

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).

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6. Financial Risk Management (Continued)

(i) Credit risk (continued)

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.

Debt investments at amortised cost

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

	2024	2023
	\$'000	\$'000
At 1 January	26,243	45,254
Recognised in profit or loss during the year	29,956	(19,011)
At 31 December	<u>56,199</u>	<u>26,243</u>

(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.

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6. Financial Risk Management (Continued)

(iii) Liquidity risk (continued)

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business 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.

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 financial 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
2024						
Lease liabilities	2,223	4,446	20,010	100,977	23,883	151,539
Insurance and reinsurance contract liabilities	-	1,003,451	3,010,354	3,257,621	795,581	8,067,007
Other payables	16,373	-	623,120	-	-	639,493
	18,596	1,007,897	3,653,484	3,358,598	819,464	8,858,039
2023						
Lease liabilities	2,177	4,354	19,240	88,850	2,608	117,229
Insurance and reinsurance contract liabilities	-	877,114	2,631,344	2,847,480	695,416	7,051,354
Other payables	-	-	797,783	-	-	797,783
Short-term loans	-	-	316,809	-	-	316,809
	2,177	881,468	3,765,176	2,936,330	698,024	8,283,175

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.

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6. Financial Risk Management (Continued)

(iv) 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.

Concentrations of currency risk

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

2024	EC\$ J\$'000	US\$ J\$'000	Total J\$'000
Assets			
Cash and deposits	257,780	32,616	290,396
Investment securities	-	865,749	865,749
Receivable from brokers	3,994	130,770	134,764
	261,774	1,029,135	1,290,909
Liabilities			
Insurance and reinsurance contract liabilities	(13,137)	(1,472,033)	(1,485,170)
	(13,137)	(1,472,033)	(1,485,170)
Net financial position	248,637	(442,898)	(194,261)

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6. Financial Risk Management (Continued)

(ii) Market risk (continued)

2023	EC\$	US\$	Total
	J\$'000	J\$'000	J\$'000
Assets			
Cash and deposits	236,553	1,096,732	1,333,285
Investment securities	105,280	753,136	858,416
Receivable from brokers	-	489,760	489,760
Total financial assets	341,833	2,339,628	2,681,461
Liabilities			
Insurance contract liabilities	(6,078)	(1,707,460)	(1,713,538)
Short-term loans	-	(308,536)	(308,536)
Total financial liabilities	(6,078)	(2,015,996)	(2,022,074)
Net financial position	335,755	323,632	659,387

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 1% appreciation and a 4% depreciation (2023 – 1% appreciation and 4% 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
	2024 %	2024 \$'000	2023 %	2023 \$'000
US\$ (J\$ Appreciation)	1%	4,429	1%	3,236
US\$ (J\$ Depreciation)	4%	(17,716)	4%	(12,945)

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6. Financial Risk Management (Continued)

(ii) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The company's 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 subject to interest rate risk at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. There is no interest rate risk arising from the company's insurance assets and liabilities.

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non- Interest Bearing \$'000	Total \$'000
2024							
Financial Assets							
Cash and deposits	1,448,661	19,600	208,250	-	-	507	1,677,018
Investment securities	324,600	1,362,372	5,836,079	1,754,399	323,985	360,274	9,961,709
Total financial assets	1,773,261	1,381,972	6,044,329	1,754,399	323,985	360,781	11,638,727
Financial Liabilities							
Lease liabilities	(1,570)	(3,164)	(14,652)	(85,047)	(21,054)	-	(125,487)
Total financial liabilities	(1,570)	(3,164)	(14,652)	(85,047)	(21,054)	-	(125,487)
Total interest repricing gap	1,771,691	1,378,808	6,029,677	1,669,352	302,931	360,781	11,513,240

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6. Financial Risk Management (Continued)

(ii) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2023							
Financial Assets							
Cash and deposits	1,923,618	875,180	-	-	-	4,360	2,803,158
Investment securities	528,735	1,114,563	3,289,446	2,071,969	529,892	208,180	7,742,785
Total financial assets	2,452,353	1,989,743	3,289,446	2,071,969	529,892	212,540	10,545,943
Financial Liabilities							
Lease liabilities	(1,663)	(3,352)	(15,165)	(76,009)	(2,297)	-	(98,486)
Short-term loans	-	-	(308,536)	-	-	-	(308,536)
Total financial liabilities	(1,663)	(3,352)	(323,701)	(76,009)	(2,297)	-	(407,022)
Total interest repricing gap	2,450,690	1,986,391	2,965,745	1,995,960	527,595	212,540	10,138,921

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. 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	Effect on Profit before Taxation	Change in basis points	Effect on Profit before Taxation
2024 JMD /USD	2024 \$'000	2023 JMD / USD	2023 \$'000
+25/-40	1,065	+25/-25	2,000
+25/-40	(1,704)	+25/-25	(2,000)

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 6% increase and 2% decrease (2023 – 6% increase and 6% decrease) in quoted prices for equity securities, results in an increase or decrease in the carrying value of \$30,983,000 and \$10,328,000, respectively (2023: \$26,554,000 and \$13,277,000).

The company is not exposed to commodity price risk.

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7. 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.

MCT Ratio

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.

A revised calculation of the MCT came into effect on 22 December 2023 as prescribed by Insurance (Amendment) Regulations, 2023. The revised calculation stipulated a required MCT of 150% for 2023 onwards.

	2024	2023
Actual MCT ratio	166%	184%
Minimum Required MCT ratio	<u>150%</u>	<u>150%</u>

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).

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8. Cash and Deposits

	2024 \$'000	2023 \$'000
Cash at bank and in hand	1,448,661	1,816,103
Short term investments (Note 9)	<u>120,107</u>	<u>879,540</u>
Cash and cash equivalents	1,568,768	2,695,643
Other deposits	<u>108,250</u>	<u>107,515</u>
	<u><u>1,677,018</u></u>	<u><u>2,803,158</u></u>

Short term investments are debt instruments with an original maturity of up to 90 days, which are classified as cash and cash equivalents. Short term investments include interest receivable of \$507,000 (2023 – \$4,210,000). Other deposits represent EC\$1,880,000 (2023 - 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:

	2024 %	2023 %
Jamaican dollar denominated	6.54%	7.73

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9. Investment Securities

Investments comprise the following:

	Years to Maturity				Total 2024	Total 2023
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At amortised cost:						
Issued by:						
Government of Jamaica	1,153,690	103,028	-	-	1,256,718	1,743,453
Bank of Jamaica	82,132	127,506	-	-	209,638	860,522
Corporate -						
Bonds	661,527	1,457,940	97,724	266,300	2,483,491	1,668,504
Reverse repurchase agreements	1,129,243	108,445	-	-	1,237,688	2,248,137
Certificates of deposits	4,894,281	-	-	-	4,894,281	2,101,709
	7,920,873	1,796,919	97,724	266,300	10,081,816	8,622,325
Short term investments (Note 8)	(120,107)	-	-	-	(120,107)	(879,540)
	7,800,766	1,796,919	97,724	266,300	9,961,709	7,742,785
At fair value through profit or loss:						
Quoted equity securities					516,375	442,561
					10,478,084	8,185,346

Investments include interest receivable of \$360,274,000 (2023 – \$234,642,000).

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 which 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 Deposit valued at US\$546,000; J\$84,480,000 (2023 – US\$535,000; J\$81,885,000) which have been pledged with the regulator in Turks and Caicos.

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10. Receivables from Brokers

	2024 \$'000	2023 \$'000
Receivables from brokers	722,702	686,041
Loss allowance	<u>(2,327)</u>	<u>(5,687)</u>
	<u>720,375</u>	<u>680,354</u>

11. Insurance and Reinsurance Contracts

(a) Net carrying amounts of insurance and reinsurance contracts

	2024			2023		
	Remaining coverage	Incurred claims	Total	Remaining coverage	Incurred claims	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Insurance contract liabilities	(2,957,243)	(4,693,192)	(7,650,435)	(2,974,973)	(4,076,381)	(7,051,354)
Reinsurance contract assets	<u>(1,992,826)</u>	<u>1,576,254</u>	<u>(416,572)</u>	<u>(641,818)</u>	<u>682,804</u>	<u>40,986</u>
Net insurance and reinsurance contracts	<u>(4,950,069)</u>	<u>(3,116,938)</u>	<u>(8,067,007)</u>	<u>(3,616,791)</u>	<u>(3,393,577)</u>	<u>(7,010,368)</u>

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11. Insurance and Reinsurance Contracts (Continued)

(b) Insurance contracts liabilities by remaining coverage and incurred claims

Insurance contract liabilities

	2024				
	LRC		LIC		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	(2,974,973)	-	(3,881,917)	(194,464)	(7,051,354)
Changes in comprehensive income					
Insurance revenue	11,147,931	-	-	-	11,147,931
Incurred claims and other insurance service expenses	-	-	(4,143,880)	(20,230)	(4,164,110)
Amortisation of insurance acquisition cash flows	(1,926,816)	-	-	-	(1,926,816)
Insurance service expenses	(1,926,816)	-	(4,143,880)	(20,230)	(6,090,926)
Insurance service result	9,221,115	-	(4,143,880)	(20,230)	5,057,005
Net finance income from insurance contracts	-	-	73,987	-	73,987
Total changes in comprehensive income	9,221,115	-	(4,069,893)	(20,230)	5,130,992
Other pre-recognition cash flows derecognized and other changes	-	-	(16,294)	-	(16,294)
Cash flows					
Premiums received	(11,225,458)	-	-	-	(11,225,458)
Claims and other insurance service expenses paid,	2,022,073	-	3,489,606	-	5,511,679
Total cash flows	(9,203,385)	-	3,489,606	-	(5,713,779)
At 31 December	(2,957,243)	-	(4,478,498)	(214,694)	(7,650,435)

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11. Insurance and Reinsurance Contracts (Continued)

(b) Insurance contracts liabilities by remaining coverage and incurred claims (continued)

Insurance contract liabilities (continued)

	2023				
	LRC		LIC		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non- financial risk	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	(2,642,013)	-	(3,974,495)	(177,622)	(6,794,130)
Changes in comprehensive income					
Insurance revenue	9,625,410	-	-	-	9,625,410
Incurred claims and other insurance service expenses	-	-	(3,811,404)	(16,842)	(3,828,246)
Amortisation of insurance acquisition cash flows	(1,674,428)	-	-	-	(1,674,428)
Insurance service expenses	(1,674,428)	-	(3,811,404)	(16,842)	(5,502,674)
Insurance service result	7,950,982	-	(3,811,404)	(16,842)	4,122,736
Net finance income from insurance contracts	-	-	115,005	-	115,005
Total changes in comprehensive income	7,950,982	-	(3,696,399)	(16,842)	4,237,741
Other pre-recognition cash flows derecognized and other changes	91,521	-	18,444	-	109,965
Cash flows					
Premiums received	(10,055,872)	-	-	-	(10,055,872)
Claims and other insurance service expenses paid,	1,680,409	-	3,770,533	-	5,450,942
Total cash flows	(8,375,463)	-	3,770,533	-	(4,604,930)
At 31 December	(2,974,973)	-	(3,881,917)	(194,464)	(7,051,354)

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11. Insurance and Reinsurance Contracts (Continued)

(c) Reinsurance contracts assets by remaining coverage and incurred claims

Reinsurance contract assets

	2024				
	Remaining coverage		Incurred claims		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	(641,818)	-	630,008	52,796	40,986
<i>Changes in comprehensive income</i>					
Net expenses from reinsurance contracts	(5,217,591)	-	862,884	8,894	(4,345,813)
Net finance income from reinsurance contracts	-	-	(32,884)	-	(32,884)
Total changes	(5,217,591)	-	830,000	8,894	(4,378,697)
<i>Cash flows</i>					
Premiums paid ¹	3,866,583	-	-	-	3,866,583
Recoveries from reinsurance	-	-	54,556	-	54,556
Total cash flows	3,866,583	-	54,556	-	3,921,139
At 31 December	(1,992,826)	-	1,514,564	61,690	(416,572)

¹ Premiums paid net of ceding commissions and other directly attributable expenses paid.

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11. Insurance and Reinsurance Contracts (Continued)

(c) Reinsurance contracts assets by remaining coverage and incurred claims (continued)

	2023				
	Remaining coverage		Incurred claims		Total
	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January	(322,993)	-	838,876	37,751	553,634
<i>Changes in comprehensive income</i>					
Net expenses from reinsurance contracts	(4,653,008)	-	900,583	15,045	(3,737,380)
Net finance income from reinsurance contracts	-	-	5,048	-	5,048
Total changes	(4,653,008)	-	905,631	15,045	(3,732,332)
<i>Cash flows</i>					
Premiums paid ¹	4,334,183	-	-	-	4,334,183
Recoveries from reinsurance	-	-	(1,114,499)	-	(1,114,499)
Total cash flows	4,334,183	-	(1,114,499)	-	3,219,684
At 31 December	(641,818)	-	630,008	52,796	40,986

¹ Premiums paid net of ceding commissions and other directly attributable expenses paid

(d) Insurance service expenses

	2024 \$'000	2023 \$'000
Expenses attributed to insurance acquisition cash flows	855,645	762,241
Commission expense	1,163,960	955,068
Change in deferred overheads	(92,789)	(42,881)
Insurance acquisition cash flows amortisation	1,926,816	1,674,428
Risk adjustment	20,230	16,842
Incurred claims	3,573,708	3,282,439
Other directly attributed expenses	570,172	528,965
Incurred claims and other directly attributable expenses	4,164,110	3,828,246
	6,090,926	5,502,674

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11. Insurance and Reinsurance Contracts (Continued)

(e) *Net expenses from reinsurance contracts*

	2024 \$'000	2023 \$'000
Reinsurance expenses	5,217,591	4,653,008
Incurred claims recovery	<u>(871,778)</u>	<u>(915,628)</u>
	<u><u>4,345,813</u></u>	<u><u>3,737,380</u></u>

(f) *Finance income from insurance contracts*

	2024 \$'000	2023 \$'000
Interest accreted	<u>73,987</u>	<u>115,005</u>

(g) *Finance income from reinsurance contracts*

	2024 \$'000	2023 \$'000
Interest accreted	<u>(32,884)</u>	<u>5,048</u>

(h) *Actuarial valuation*

An actuarial valuation was performed to value the claim liabilities of the company at reporting date, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles. The actuary has stated that her report conforms to the standards of practice as established by the Institute and Faculty of Actuaries as well as the Caribbean Actuarial Association, with such changes as directed by the Financial Services Commission.

Valuation methodologies and assumptions are discussed in Note 12 below.

In her opinion dated 31 March 2025, the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at the reporting date makes reasonable 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.

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12. Insurance Risk

Insurance risk is the risk of the loss event occurrence, or the timing and amount of the loss being different from expectation. The company's main income generating activity is the issuance of insurance contracts and therefore insurance risk is a principal risk. Insurance risk arising from the company's insurance contracts is primarily concentrated within Jamaica.

The company principally issues insurance contracts for property, motor, marine, liability and pecuniary loss. For these insurance contracts, the most significant risks arise from:

- Reserve risk: the risk that the claims reserves are insufficient to cover all claims.
- Premium risk: the risk that premiums charged to policyholders are less than claims cost on business written;
- Catastrophe risk: the risk of incurring significant losses as a result of catastrophic events;

The company is exposed to reserve risk and premium risk arising on all insurance contracts issued.

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.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk. A more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company mitigates its exposure by applying 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. In addition, the company maintains an appropriate balance between commercial and personal policies and types of policies based on guidelines set by the Board of Directors.

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.

The most significant factor which could increase the amount and frequency of claims is a catastrophic event such as a hurricane, flooding or earthquake.

Judgements and estimates involved in the determination of liabilities for incurred claims are discussed below.

Financial risk exposures and mitigation of those risks are discussed in Note 6.

Reinsurance strategy

The company also mitigates its insurance risks by purchasing excess of loss reinsurance programmes against large individual claims and catastrophe losses and quota-share reinsurance arrangements to reduce the overall exposure for certain classes of business. Reinsurance arrangements are effected under reinsurance treaties and by negotiation on individual risks. Reinsurance does not relieve the company from liability to its policyholders. The company has a variety of approved reinsurers to mitigate reinsurance risk, the risk of placement of ineffective reinsurance arrangements.

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12. Insurance Risk (Continued)

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

	2024		2023	
	Policy Limit	Maximum Net Retention	Policy Limit	Maximum Net Retention
	\$'000	\$'000	\$'000	\$'000
Commercial property –				
Fire and consequential loss	1,556,022	46,681	1,542,681	89,475
Boiler and machinery	933,613	7,002	925,608	6,942
Engineering	1,244,818	9,336	1,234,144	9,256
Burglary, money and goods in transit	46,681	46,681	38,567	37,752
Glass	46,681	46,681	38,567	37,752
Other	46,681	46,681	38,567	37,752
Liability	840,252	46,681	462,804	46,280
Marine, aviation and transport	93,361	3,112	92,561	2,314
Motor	60,000	15,000	60,000	15,000
Pecuniary loss –				
Fidelity	46,681	46,681	38,567	37,752
Surety/Bonds	2,058,928	411,786	269,969	53,994
Personal accident	46,681	46,681	38,567	37,752
Personal property	1,556,022	46,681	1,542,681	89,475

Insurance risk management

The company's Insurance Risk Committee is responsible for managing the company's insurance and reinsurance risk by:

- Ensuring that the company has appropriate underwriting and reinsurance strategy within an overall risk management framework, including an effective system of internal control;
- Identifying, assessing and measuring insurance risk, from an individual policy to a portfolio level
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of insurance and reinsurance policies;
- Ensuring that risk management policies and procedures are reviewed regularly to reflect changes in the company's activities and market conditions
- Monitoring that individual and aggregate claims reserves are reviewed regularly by the appointed actuary using a variety of actuarial techniques;
- Ensuring reinsurance is purchased to mitigate the effect of potential loss to the company from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital;
- Monitoring that reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis;
- Limiting concentrations of exposure by class of business, counterparties, geographic location etc.

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12. Insurance Risk (Continued)

GK Group Internal Audit, as the company's internal audit function, performs regular audits ensuring that the established controls and procedures are adequately designed and implemented.

There were no significant changes in the company's objectives, policies and processes for managing the risks and the methods used to measure the risks from the previous period.

Risk exposure and concentrations of risk

The concentration of insurance risk, before and after reinsurance, by territory and 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 contracts.

		2024				
Territory		Motor \$'000	Liability \$'000	Property \$'000	Other \$'000	Total \$'000
Jamaica	Gross	3,086,807	707,108	770,266	108,927	4,673,108
	Net	3,036,367	666,125	(665,468)	61,640	3,098,664
Turks and Caicos Island	Gross	6,882	-	-	-	6,882
	Net	6,882	-	-	-	6,882
Dominica	Gross	5,084	115	2,015	5,988	13,202
	Net	5,084	115	205	5,988	11,392
Total	Gross	3,098,773	707,223	772,281	114,915	4,693,192
	Net	3,048,333	666,240	(665,263)	67,628	3,116,938
		2023				
Territory		Motor \$'000	Liability \$'000	Property \$'000	Other \$'000	Total \$'000
Jamaica	Gross	2,629,282	605,565	582,378	90,381	3,907,606
	Net	2,598,828	558,628	190,879	29,326	3,377,661
Turks and Caicos Island	Gross	8,342	-	154,226	-	162,568
	Net	8,342	-	3,165	-	11,507
Dominica	Gross	4,091	114	2,002	-	6,207
	Net	4,091	114	204	-	4,409
Total	Gross	2,641,715	605,679	738,606	90,381	4,076,381
	Net	2,611,261	558,742	194,248	29,326	3,393,577

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12. Insurance Risk (Continued)

The company monitors reinsurance risk by individual reinsurers. An analysis of the company's reinsurance risk concentrations per individual reinsurers is provided in the following tables. The amounts in the table represent gross carrying amounts.

	2024 \$'000	2023 \$'000
A++ Rating Reinsurer	-	34,855
A+ Rating Reinsurer	393,442	380,374
A Rating Reinsurer	152,539	38,046
B++ Rating Reinsurer	29,165	48,375
BBB+ Rating Reinsurer	12,424	22,193
BBB Rating Reinsurer		15,433
Local un-rated Reinsurer	926,991	90,732
	<u>1,514,561</u>	<u>630,008</u>

Sensitivity analysis

The following table details the impact of changes in key assumptions, in computing liabilities for incurred claims, on the company's profit or loss and equity, before and after risk mitigation from reinsurance contracts held. This analysis is based on a change in one risk variable with all other variables held constant. Sensitivity analysis assumes that changes to variables can be made independently, which is very unlikely to occur in practice as movements in these assumptions may be non-linear and may be correlated with one another.

There were no changes made from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

Insurance contract liabilities - liabilities for incurred claims:

	2024			
	Gross \$'000	Net \$'000	Profit before tax \$'000	Equity after tax \$'000
10% increase in loss development factor	82,143	62,310	(62,310)	-
10% increase in IBNR	82,143	62,310	(62,310)	-
1% increase in discount rate	73,683	67,895	67,895	-
	2023			
	Gross \$'000	Net \$'000	Profit before tax \$'000	Equity after tax \$'000
10% increase in loss development factor	62,741	56,279	(56,279)	-
10% increase in IBNR	62,741	56,279	(56,279)	-
1% increase in discount rate	69,863	63,994	63,994	-

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12. Insurance Risk (Continued)

Claims development

In addition to sensitivity analysis, the development of insurance liabilities from 2014 to 2024, provides a measure of the company's ability to estimate the ultimate value of claims. The table below summarises actual claims compared with previous estimates of the undiscounted amount of the claims and illustrates how the company's estimate of the ultimate claims liability for each accident year has changed at successive year-ends. The company presents information on the gross and net claims development for claims incurred 10 years before the reporting period and reconciles the LIC presented in the table with the aggregate carrying amount of the groups of insurance contracts.

Claims development-Net

[illegible]

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12. Insurance Risk (Continued)

Critical accounting estimates and judgments involving insurance contracts

Critical judgements in applying the company's accounting policies

The following are the critical judgements, apart from those involving estimations (addressed separately below), made in the process of applying the company's accounting policies and that will have the most significant effect on the amounts recognised in financial statements in respect of insurance and reinsurance contracts.

(a) Determination of the contract boundary

The measurement of a group of insurance contracts includes all the future cash flows arising within the contract boundary. In determining which cash flows fall within a contract boundary, the company considers its substantive rights and obligations arising from the terms of the contract, from applicable law, regulation and customary business practices. The company applies its judgement in assessing whether it has the practical ability to set a price that fully reflects all the risks in the contract or portfolio.

(b) Level of aggregation

The company applies judgement when distinguishing between contracts that have no significant possibility of becoming onerous and other profitable contracts. The company sets premiums considering recent experience and has reviewed gross combined ratios which indicated that contracts are expected to be profitable. There are no recent circumstances where there have been onerous contracts. All contracts measured under the PAA on transition to IFRS 17 were determined to be non-onerous on initial recognition.

(c) Assessment of directly attributable cash flows

The company uses judgement in assessing whether cash flows are directly attributable to a specific portfolio of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the company also allocates fixed and variable overheads fulfilment cash flows directly attributable to the fulfilment of insurance contracts. The company performs regular expense studies and uses judgment to determine the extent to which fixed and variable overheads are directly attributable.

Where estimates of expense-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis, such as the activity-based costing method. The company has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Expenses of an administrative policy maintenance nature are allocated to groups of contracts based on the number of contracts in force within groups. Acquisition cash flows are typically allocated to groups of contracts based on gross premiums written. Claims settlement-related expenses are typically allocated based on the number of claims expected.

(d) Methodology for determining insurance liabilities

Judgment is involved in assessing the most appropriate technique to estimate insurance liabilities for the claims incurred.

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12. Insurance Risk (Continued)

Key sources of estimation uncertainty

The following are key estimations used in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements in respect of insurance and reinsurance contracts.

The company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the company's previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the company now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

By applying IFRS 17 to measurement of insurance contracts issued and reinsurance contracts held, the company has made estimations in the following key areas. They form part of the overall balances of insurance contract assets and liabilities and reinsurance contract assets and liabilities.

(a) Future cash flows

Included in the measurement of each group of contracts within the scope of IFRS 17 are all of the future cash flows within the boundary of each group of contracts. In estimating fulfilment cash flows included in the contract boundary, the company considers the range of all possible outcomes in an unbiased way specifying the amount of cash flows, timing and probability of each scenario reflecting conditions existing at the measurement date, using a probability-weighted average expectation. The probability-weighted average represents the probability-weighted mean of all possible scenarios. In determining possible scenarios, the company uses all the reasonable and supportable information available to them without undue cost and effort, which includes information about past events, current conditions and future forecasts.

Uncertainty in the estimation of future claims and benefit payments arises primarily from the severity and frequency of claims. Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required. In addition, under certain methods used to assess claims incurred for the general insurance contracts, estimates of future claim payments are adjusted for inflation.

The company projects estimates of future expenses relating to fulfillment of contracts using current expense levels adjusted for inflation. Expenses comprise expenses directly attributable to the groups of contracts, including an allocation of fixed and variable overheads.

(b) Discount rates

The insurance industry regulator, the Financial Services Commission ("FSC") has indicated appropriate discount rates to be used in applying IFRS 17 for the determination of liabilities for incurred claims. The bottom-up approach was used to derive these rates. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The risk-free rate was derived using Government of Jamaica (GOJ) bond data obtained from Bloomberg, excluding outliers and bonds with terms less than 1 year, 3 months, 6 months and 9 months treasuries. Insurance contracts are considered less liquid than the financial assets used to derive the risk-free yield. For these contracts, the illiquidity premium was estimated based on bid-mid spread on GOJ bonds for liquid insurance contracts and a flat 75 basis points (bps) over the liquid curve for illiquid insurance contracts.

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12. Insurance Risk (Continued)

Key sources of estimation uncertainty (continued)

Observable market information is available for up to 20 years. The FSC has provided yields at six-month intervals so no interpolation is required.

The yield curves that were used to discount the estimates of future cash flows are as follows:

	2024			2023		
	1 year	5 years	10 years	1 year	5 years	10 years
Insurance contracts issued and reinsurance held	5.74%	7.12%	8.28%	6.18%	6.07%	7.03%

(c) Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. Because the risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favourable and unfavourable outcomes in a way that reflects the company's degree of risk aversion.

The company estimates an adjustment for non-financial risk separately from all other estimates. The company does not consider the effect of reinsurance in the risk adjustment for non-financial risk of the underlying insurance contracts.

The risk adjustment was calculated at the issuing entity level and then allocated down to each group of contracts in accordance with their risk profiles. The cost of capital method was used to derive the overall risk adjustment for non-financial risk.

In the cost of capital method, the risk adjustment is determined by applying a cost rate to the present value of projected capital relating to non-financial risk. The cost rate is set at 6% per annum, representing the return required to compensate for the exposure to non-financial risk. The capital is determined at a 99.5% confidence level, and it is projected in line with the run-off of the business. The diversification benefit is included to reflect the diversification in contracts sold across geographies, because this reflects the compensation that the entity requires.

The resulting amount of the calculated risk adjustment corresponds to the confidence level of 75% (2023: 75%).

(d) Insurance acquisition cash flows

The company allocates the asset for insurance acquisition cash flows to an associated group of contracts and to any future groups that include the contracts that are expected to arise from the renewals of the contracts in that group using a systematic and rational method. In doing so, the company estimates the expected contracts to be included within a future group or the number of renewals that may arise from an original group when allocating the asset.

(e) Liabilities for incurred claims

The determination of the liabilities under insurance contracts by the Appointed Actuary, 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.

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12. Insurance Risk (Continued)

The main assumption underlying these techniques is that the company's past claims development experience can be used to project future claims development and hence ultimate claims costs. This method extrapolates the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Actuarial data

The data employed in the analysis of claim liabilities was taken directly from the company's records and includes earned premiums, historical paid claims, case reserves, and allocated claims expenses. This information is used to develop ultimate incurred claims and allocated claim adjustment expense estimates. Individual items (on both a gross and net basis) used in estimating liabilities are grouped by each accident year from 2008 to 2024:

Actuarial assumptions

In applying the noted methodologies, the following assumptions were made:

- (i) With respect to the analysis of incurred claims development history, the level of case reserve adequacy is relatively consistent, in inflation-adjusted terms, over the experience period.
- (ii) With respect to the analysis of the paid claims development history, the claims settlement rate is relatively consistent over the experience period.
- (iii) The claims inflation rate implicitly used in the valuation is equivalent to that rate which is part of the historical data.

Assumptions and adjustments specific to a given line of business are discussed in the Appointed Actuary's report.

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.

Consistency of application

The judgements applied and methods and assumptions used for estimating inputs used to measure insurance contracts were applied consistently across all years presented.

GK General Insurance Company Limited

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13. Other Receivables

	2024	2023
	\$'000	\$'000
Staff loans	8,776	2,621
Prepayments	2,362	82,739
Other	418,703	345,214
	<u>429,841</u>	<u>430,574</u>

14. Related Party Transactions and Balances

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

	2024	2023
	\$'000	\$'000
Receivables from brokers -		
Premiums receivable	<u>2,221</u>	<u>1,628</u>

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

	2024	2023
	\$'000	\$'000
Cash and short-term investments –		
Fellow subsidiaries	<u>102,990</u>	<u>1,141,201</u>
Investments –		
Fellow subsidiaries	<u>906,852</u>	<u>581,753</u>
Premiums receivable –		
Fellow subsidiaries	233,047	377,712
Ultimate parent company	<u>5,195</u>	<u>2,602</u>
	<u>238,242</u>	<u>380,314</u>
Due from group companies -		
Fellow subsidiaries	<u>476,843</u>	<u>236,684</u>

GK General Insurance Company Limited

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14. Related Party Transactions and Balances (Continued)

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

	2024	2023
	\$'000	\$'000
Due to group companies -		
Fellow subsidiaries	5,378	34,238
Parent	35,120	28,149
Ultimate parent company	129,637	117,635
	<u>170,135</u>	<u>180,022</u>
Other payables – Fellow subsidiary	<u>10,011</u>	<u>11,042</u>
Reinsurance contract liabilities – Fellow subsidiary	<u>566,604</u>	<u>472,672</u>
Insurance contract liabilities -		
Fellow subsidiaries	73,265	67,408
Ultimate parent company	12,727	17,154
	<u>85,992</u>	<u>84,562</u>

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

	2024	2023
	\$'000	\$'000
Staff costs –		
Wages and salaries	64,854	59,246
Statutory contributions	3,023	3,362
	<u>67,877</u>	<u>62,608</u>
Directors' emoluments -		
Fees	<u>2,452</u>	<u>4,197</u>
Gross premiums written	<u>5,819</u>	<u>3,806</u>

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14. Related Party Transactions and Balances (Continued)

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

	2024	2023
	\$'000	\$'000
Insurance revenue –		
Fellow subsidiaries	811,497	798,995
Parent company	4,519	6,650
Ultimate parent company	294,569	267,330
	<u>1,110,585</u>	<u>1,072,975</u>
Net expenses from reinsurance contracts		
Reinsurance ceded – Fellow subsidiaries	<u>189,695</u>	<u>194,910</u>
Commission income – Fellow subsidiaries	<u>33,540</u>	<u>20,159</u>
Commission expense – Fellow subsidiaries	<u>292,235</u>	<u>350,043</u>
Insurance service expense (gross claims) –		
Fellow subsidiaries	7,243	6,133
Ultimate parent company	4,442	4,009
	<u>11,685</u>	<u>10,142</u>
Other operating expenses –		
Parent company	307,535	289,981
Ultimate parent company	146,110	127,829
Fellow subsidiaries	15,927	19,980
	<u>469,572</u>	<u>437,790</u>
Allocation of central office expenses paid to parent company	<u>444,146</u>	<u>278,303</u>
Interest income -		
Fellow subsidiaries	<u>70,444</u>	<u>51,077</u>
Other operating income		
Fellow subsidiaries	<u>10,982</u>	<u>9,098</u>
Royalty expense – Fellow subsidiary	<u>90,375</u>	<u>77,236</u>

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15. Property, Plant and Equipment

	Freehold Land and Buildings	Leasehold Improvements	Right-of-Use Assets	Furniture, Fixtures and Equipment	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2024						
At Cost or Valuation -						
At 1 January 2024	828,027	477,509	200,490	271,616	30,102	1,807,744
Additions	31,210	15,449	49,854	23,250	10,002	129,765
Revaluation	140,391	-	-	-	-	140,391
Disposals	-	-	(54,925)	(956)	(7,027)	(62,908)
At 31 December 2024	999,628	492,958	195,419	293,910	33,077	2,014,992
Depreciation -						
At 1 January 2024	6,641	292,261	113,559	215,484	21,440	649,385
Charge for the year	7,728	44,170	27,384	24,854	5,956	110,092
Revaluation adjustment	(14,369)	-	-	-	-	(14,369)
Disposal	-	-	(54,925)	(956)	(7,027)	(62,908)
At 31 December 2024	-	336,431	86,018	239,382	20,369	682,200
Net Book Value -						
31 December 2024	999,628	156,527	109,401	54,528	12,708	1,332,792

	Freehold Land and Buildings	Leasehold Improvements	Right-of-Use Assets	Furniture, Fixtures and Equipment	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2023						
At Cost or Valuation -						
1 January 2023	821,509	468,952	182,519	256,969	29,637	1,759,586
Additions	6,518	8,557	17,971	14,647	465	48,158
At 31 December 2023	828,027	477,509	200,490	271,616	30,102	1,807,744
Depreciation -						
At 1 January 2023	-	250,429	93,106	192,770	16,195	552,500
Charge for the year	6,641	41,832	20,453	22,714	5,245	96,885
At 31 December 2023	6,641	292,261	113,559	215,484	21,440	649,385
Net Book Value -						
31 December 2023	821,386	185,248	86,931	56,132	8,662	1,158,359

Land and buildings are carried at fair market value based on a valuation in 2024 by D.C. Tavares & Finson Company Limited, professional valuers. If land and buildings were stated on the historical cost basis, the cost would be \$376,463,000 (2023 – \$345,253,000) with accumulated depreciation of \$33,518,000 (2023 – \$25,882,000).

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16. Intangible Assets

	Software Development in Progress	Policy Contracts	Computer Software	Total
	\$'000	\$'000	\$'000	\$'000
	2024			
At Cost -				
At 1 January 2024	46,419	606,574	127,598	780,591
Additions	1,969	-	24,883	26,852
At 31 December 2024	48,388	606,574	152,481	807,443
Amortisation -				
At 1 January 2024	-	606,574	104,871	711,445
Amortisation charge	-	-	31,040	31,040
At 31 December 2024	-	606,574	135,911	742,485
Net Book Value -				
31 December 2024	48,388	-	16,570	64,958
	2023			
At Cost -				
At 1 January 2023	46,419	606,574	126,654	779,647
Additions	-	-	944	944
At 31 December 2023	46,419	606,574	127,598	780,591
Amortisation -				
At 1 January 2023	-	606,574	89,520	696,094
Amortisation charge	-	-	15,351	15,351
At 31 December 2023	-	606,574	104,871	711,445
Net Book Value -				
31 December 2023	46,419	-	22,727	69,146

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 and is included in policy contracts.

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17. Other Payables

	2024	2023
	\$'000	\$'000
Accruals	16,373	24,260
General Consumption Tax	268,470	68,183
Other	625,270	772,920
	<u>910,113</u>	<u>865,363</u>

18. Lease Liabilities

Recognised in the statement of financial position:

	2024	2023
	\$'000	\$'000
Property, plant and equipment – Right-of-use assets		
Current	19,386	20,180
Non-current	106,101	78,306
	<u>125,487</u>	<u>98,486</u>

Recognised in the statement of comprehensive income:

	2024	2023
	\$'000	\$'000
Depreciation charge on right-of-use assets (Note 15)	27,384	20,453
Interest expense on lease liabilities	7,279	6,585
Total expenses related to leases	<u>34,663</u>	<u>27,038</u>

The total cash outflow for leases in 2024 was \$22,853,000 (2023 - \$19,485,000).

Right-of-use assets comprise buildings with net book value of \$109,401,000 (2023: \$86,931,000) as detailed in Note 15.

Lease activities as lessee

The company leases 6 office buildings. 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, with three (3) of the lease payments being fixed and the remaining three (3) being adjusted annual by pre-determined interest rates. The company has no lease contracts that include variable lease payments.

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.

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18. Leases Liabilities (Continued)

Lease activities as sub-lessor

Approximately 85% of the total building space is rented out to a third party.

Liabilities from financing activity – leases

	2024	2023
	\$'000	\$'000
Lease liabilities at the beginning of the year	98,486	99,935
Addition during the year (Note 15)	49,854	17,971
Disposal	(7,279)	(6,520)
Financing cash flows	(22,853)	(19,485)
Interest expense	<u>7,279</u>	<u>6,585</u>
Lease liabilities at the end of the year	<u><u>125,487</u></u>	<u><u>98,486</u></u>

Minimum lease payments

	2024	2023
	\$'000	\$'000
Current	26,679	25,771
Non-current	<u>124,860</u>	<u>91,458</u>
	151,539	117,229
Future interest charges	<u>(26,052)</u>	<u>(18,743)</u>
Present value of lease liabilities	<u><u>125,487</u></u>	<u><u>98,486</u></u>

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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 33 $\frac{1}{3}$ %. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

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

	2024	2023
	\$'000	\$'000
Deferred income tax assets	282,571	237,405
Deferred income tax liabilities	(288,283)	(217,127)
	<u>(5,712)</u>	<u>20,278</u>

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

	2024	2023
At beginning of year	20,278	(5,877)
Tax recognised in profit or loss (Note 28)	(19,435)	(16,156)
Tax recognised in other comprehensive income	(6,555)	42,311
At end of year	<u>(5,712)</u>	<u>20,278</u>

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

	2024		
	Before tax	Tax credited	After Tax
	\$'000	\$'000	\$'000
<i>Item that may be reclassified to profit or loss:</i>			
Re-measurements of post-employment benefit obligations	<u>(19,665)</u>	<u>6,555</u>	<u>(13,110)</u>
	2023		
	Before tax	Tax charged	After Tax
	\$'000	\$'000	\$'000
<i>Items that may be reclassified to profit or loss:</i>			
Re-measurements of post-employment benefit obligations	<u>(126,932)</u>	<u>42,311</u>	<u>(84,621)</u>

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19. Deferred Income Taxes (Continued)

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

	1 Jan 2023	PL	OCI	31 Dec 2023	PL	OCI	31 Dec 2024
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accelerated depreciation	20,783	61,276	-	82,059	(4,166)	-	77,893
Foreign exchange	7,635	(8,882)	-	(1,247)	935	-	(312)
Interest receivable	(37,767)	(15,889)	-	(53,656)	(66,604)	-	(120,260)
Investment securities	65,471	(57,812)	-	7,659	(7,659)	-	-
Post-employment benefits	79,828	8,997	42,311	131,136	29,474	(6,555)	154,055
Revaluation of buildings	(150,975)	-	-	(150,975)	(13,839)	-	(164,814)
Other	9,148	(3,846)	-	5,302	42,424	-	47,726
	(5,877)	(16,156)	42,311	20,278	(19,435)	(6,555)	(5,712)

	2024		2023	
	Deferred Tax			
	Asset	Liability	Asset	Liability
	\$'000	\$'000	\$'000	\$'000
Accelerated depreciation	80,790	(2,897)	93,308	(11,249)
Foreign exchange	-	(312)	-	(1,247)
Interest receivable	-	(120,260)	-	(53,656)
Investment securities	-	-	7,659	-
Post-employment benefits	154,055	-	131,136	-
Revaluation of buildings	-	(164,814)	-	(150,975)
Other	47,726		5,302	-
	282,571	(288,283)	237,405	(217,127)
Net Deferred Tax (Liabilities)/Assets		(5,712)		20,278

These balances include the following:

	2024 \$'000	2023 \$'000
Deferred tax liabilities to be settled after more than 12 months	164,814	127,278
Deferred tax assets to be recovered after more than 12 months	154,814	131,136

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20. Short-term Loans

	2024 \$'000	2023 \$'000
National Commercial Bank (Jamaica) Limited	-	308,536

In December 2023, a US\$2,000,000 revolving loan facility was obtained from National Commercial Bank (Jamaica) Limited for a tenor of 9 months from the initial date of disbursement. This loan was obtained for working capital purposes and had an interest rate of 6.5% per annum. Interest charge for the year was \$12,425,000 (2023-\$11,133,000). The principal amount was fully paid in January 2024. Two additional drawdowns were made in 2024 for which the principal amounts were also fully paid during the year.

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 2023	Cash inflows	Cash outflows	Non-cash changes – foreign exchange movements	31 December 2024
	\$'000	\$'000	\$'000	\$'000	\$'000
Short-term loans	308,536	625,248	(933,068)	(716)	-

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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 \$44,438,000 (2023 - \$40,253,000).

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% (2023 – 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 are 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.

As explained in Note 2(q)(i), the obligation of the company is limited to its regular monthly pension contribution, which are recognised in the period in which they are incurred. The company's contribution for the year was \$60,000 (2023 - \$60,000).

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:

	2024	2023
	\$'000	\$'000
Present value of unfunded obligations	<u>462,164</u>	<u>393,446</u>

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

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

	2024	2023
	\$'000	\$'000
Balance at beginning of year	393,446	239,484
Current service cost	22,681	11,287
Past service cost	(969)	(65)
Interest cost	41,272	30,212
Total included in staff cost (Note 27)	62,984	41,434
Re-measurements:		
Losses from change in financial assumptions	37,686	119,372
(Gains)/losses from change in demographic assumptions	(12,814)	10,227
Experience gains	(5,210)	(2,668)
Total amount included in other comprehensive income	19,662	126,931
Benefits paid	(13,928)	(14,403)
Balance at end of year	462,164	393,446

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

	2024	2023
	\$'000	\$'000
Gratuity Plan	25,541	27,878
Group Life Plan	108,336	80,291
Insured Group Health	223,257	187,875
Self-Insured Health Plan	99,135	91,912
Supplementary Pension Plan	5,895	5,490
	462,164	393,446

The significant actuarial assumptions used were as follows:

	2024	2023
Discount rate	9.5%	11.0%
Salary growth rate	6.5%	7.5%
Price inflation (CPI)	5.0%	6.0%

Mortality for all members is based on the RP-2014 Employee and Healthy Annuitant Mortality Rates projected to the Measurement Date, using the Society of Actuaries' Scale MP-2014.

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

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	Decrease in Assumption
		\$'000	\$'000
Discount rate	1%	45,844	(58,801)
Medical inflation rate	1%	(59,984)	47,333

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 2024 and 2023 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 2025.

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.

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

Duration is a way of gauging how sensitive obligations are to changes in interest rates. There will be a lower duration for rate increases and a greater duration for rate decreases. Essentially, for every 100 basis points change in interest rates, the obligation should change in the opposite direction by 1% for every year of duration, for small changes in interest rates. The average duration of the post-employment obligations is as follows:

	2024	2023
Plans	Years	Years
Gratuity Plan	12.0	11.1
Group Life Plan	20.0	19.6
Insured Group Health	12.1	12.4
Self-Insured Health Plan	19.3	17.7
Superannuation plan	<u>6.6</u>	<u>6.6</u>

22. Share Capital

	2024 \$'000	2023 \$'000
Authorised, issued and fully paid -		
862,064,000 (2023 – 862,064,000) Ordinary shares at no par value	862,064	862,064
3,131,900 (2023 - 3,131,900) Preference shares	<u>429,675</u>	<u>429,675</u>
	<u>1,291,739</u>	<u>1,291,739</u>

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.

Preference shares are not cumulative, and dividends are paid at the discretion of the Board of Directors. In any given financial year, dividends declared shall not exceed 8% of the total capital paid upon said preference shares.

On 31 October 2024, the Board of Directors approved the payment of ordinary dividends of \$150,000,000 (\$0.17 per share). The dividends were paid in December 2024.

On 31 October 2024, the Board of Directors approved the payment of preference dividends of \$56,784,000 (\$18.13 per share). The dividends were paid in December 2024.

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23. Capital and Fair Value Reserves

	2024 \$'000	2023 \$'000
Realised gain/ (loss) on sale of investments	824	(2,060)
Unrealised gains on investments held as FVOCI	(3,036)	-
Unrealised surplus on the revaluation of land and buildings (Note 15)	731,988	577,228
Deferred tax	(161,051)	(150,975)
	<u>568,725</u>	<u>424,193</u>

24. Interest Income

	2024 \$'000	2023 \$'000
Interest income -		
Debt investments held at amortised cost	<u>744,260</u>	<u>640,704</u>

25. Other Operating Income

	2024 \$'000	2023 \$'000
Dividend income	6,189	9,214
Loss on investments	-	(4,743)
Gain on disposal of property, plant and equipment	1,909	180
Miscellaneous income	64,419	42,271
Net foreign exchange gains	11,830	45,612
Rental income	<u>136,173</u>	<u>130,576</u>
	<u>220,520</u>	<u>223,110</u>

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26. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2024			
	Expenses attributed to insurance acquisition cash flows	Other directly attributed expenses	Other operating expenses	Total
	\$'000	\$'000	\$'000	\$'000
Advertising and public relations	-	-	65,053	65,053
Allocation of central office expenses paid to parent company	70,981	46,713	326,542	444,236
Amortisation of intangible assets	19,321	10,874	845	31,040
Asset tax	-	-	22,083	22,083
Auditor's remuneration	-	13,071	4,809	17,880
Bank charges	-	33,963	21,178	55,141
Data processing	79,085	44,359	7,030	130,474
Depreciation	53,477	33,612	23,003	110,092
Directors' fee	473	836	1,143	2,452
Miscellaneous	2,499	2,747	6,184	11,430
Occupancy- rent, utilities, insurance, security	58,049	31,506	13,455	103,010
Office expenses	145	92	6,474	6,711
Professional fees	27,355	-	8,890	36,245
Registration fees and stamp duty	-	35,539	6,608	42,147
Repairs and maintenance	13,242	7,427	1,102	21,771
Royalty expense	-	-	90,375	90,375
Staff costs	531,018	321,456	171,699	1,024,173
Strategic planning expenses	-	-	1,325	1,325
Impairment losses on financial assets - IFRS 9	-	(12,023)	29,956	17,933
GCT Expense	-	-	12,435	12,435
	<u>855,645</u>	<u>570,172</u>	<u>820,189</u>	<u>2,246,006</u>

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Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

26. Expenses by Nature (Continued)

	2023			
	Expenses attributed to insurance acquisition cash flows	Other directly attributed expenses	Other operating expenses	Total
	\$'000	\$'000	\$'000	\$'000
Advertising and public relations	-	-	59,814	59,814
Allocation of central office expenses paid to parent company	60,406	44,135	313,097	417,638
Amortisation of intangible assets	4,544	2,830	7,977	15,351
Asset tax	-	-	24,751	24,751
Auditor's remuneration	-	14,669	4,890	19,559
Bank charges	-	29,003	-	29,003
Data processing	68,288	37,938	1,864	108,090
Depreciation	56,720	34,613	5,552	96,885
Directors' fee	859	1,504	1,960	4,323
Miscellaneous	1,988	2,423	65,391	69,802
Occupancy- rent, utilities, insurance, security	48,702	29,853	697	79,252
Office expenses	-	-	4,324	4,324
Professional fees	27,602	-	-	27,602
Registration fees and stamp duty	-	38,433	11,039	49,472
Repairs and maintenance	11,432	6,351	2,940	20,723
Royalty expense	-	-	77,236	77,236
Staff costs	481,700	288,504	120,442	890,646
Strategic planning expenses	-	-	994	994
Impairment losses on financial assets - IFRS 9	-	(1,291)	(19,010)	(20,301)
GCT Expense	-	-	9,661	9,661
	<u>762,241</u>	<u>528,965</u>	<u>693,619</u>	<u>1,984,825</u>

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27. Staff Costs

	2024 \$'000	2023 \$'000
Wages and salaries	689,568	613,062
Statutory contributions	78,167	70,773
Pension – defined contribution (Note 21)	44,438	40,313
Other post-employment obligations (Note 21)	62,984	41,434
Other	149,016	125,064
	<u>1,024,173</u>	<u>890,646</u>

28. Taxation

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

	2024 \$'000	2023 \$'000
Current taxation	297,850	159,611
Prior years' under-accrual	110,936	-
Deferred taxation (Note 19)	19,435	16,156
	<u>428,221</u>	<u>175,767</u>

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

	2024 \$'000	2023 \$'000
Profit before taxation	<u>896,886</u>	<u>675,604</u>
Tax calculated at a tax rate of 33⅓%	298,962	225,201
Adjusted for the effects of –		
Expenses not deductible for tax purposes	10,034	10,718
Income not subject to tax	(1,920)	(1,858)
Dividend paid on preference shares	(18,928)	(18,533)
Tax impact of the adoption of IFRS 17	110,936	-
Other	<u>62,706</u>	<u>(7,497)</u>
Tax charge before relief	461,790	208,031
Less:		
Urban Renewal tax relief on rental income (i)	<u>(33,569)</u>	<u>(32,264)</u>
	<u>428,221</u>	<u>175,767</u>

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28. Taxation (Continued)

- (i) In 2023, 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 incentive 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 \$70,602,000 was utilised in 2021, and the balance of \$25,693,000 was utilised in 2022.

- (ii) 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 \$98,222,000 (2023-\$96,793,000), resulting in tax relief of \$33,569,000 (2023 -\$32,264,000), which was offset against the current year's income tax liability.

Since 2022, the company has made no further qualifying capital expenditure on which it could claim Urban Renewal tax credit. The application of tax relief on net rental income of \$33,569,000 (2023 -\$32,264,000) resulted in a total reduction of \$33,569,000 (2023 - \$32,264,000) in the company's income tax expense.

In 2023, the company adopted IFRS 17 Insurance Contracts. This was a retroactive accounting adoption which required a restatement of the company's 2022 results, for comparative purposes. The transition resulted in certain expenses, which had been recognised in the determination of profits in the year ended 31 December 2022 under IFRS 4, being deferred and recognised in the determination of profits in the 2023 financial statements, in accordance with IFRS 17. The amount deferred for the restated 2022 results, for which a tax credit had already been received, was incorrectly included in computing the 2023 tax charge. Consequently, the 2023 tax charge was understated by \$110,936,000.

The correction of this understatement has been recognised in the current year charge. An industry-wide arrangement has been reached with the TAJ for the payment of these additional taxes to be made over 4 years starting 2024.

29. Contingent Liabilities

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