

**Jamaica International Insurance  
Company Limited**

**Financial Statements  
31 December 2008**

# Jamaica International Insurance Company Limited

Index

31 December 2008

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	<b>Page</b>
<b>Actuary's Report</b>	
<b>Independent Auditors' Report to the Members</b>	
<b>Financial Statements</b>	
Balance sheet	1 – 2
Profit and loss account	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6 – 51

## **Independent Auditors' Report**

To the Members of  
Jamaica International Insurance Company Limited

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Jamaica International Insurance Company Limited, set out on pages 1 to 51, which comprise the balance sheet as of 31 December 2008 and the profit and loss account, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

#### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

**Report on Other Legal and Regulatory Requirements**

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

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

Chartered Accountants  
30 March 2009  
Kingston, Jamaica

# Jamaica International Insurance Company Limited

Balance Sheet

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
<b>ASSETS</b>			
Cash and Short Term Investments	8	754,747	533,895
Investments	9	2,433,348	2,347,605
Due from Agents, Brokers and Policyholders	10	431,837	260,075
Recoverable from Reinsurers and Coinsurers	11	1,694,783	1,256,771
Deferred Policy Acquisition Costs		122,873	99,137
Other Receivables	12	18,126	25,938
Due from Parent Company	26	-	1,207
Taxation recoverable		42,062	-
Fixed Assets	13	342,991	281,859
Retirement Benefit Asset	14	90,826	90,836
Intangible Asset	15	471,271	510,543
		<u>6,402,864</u>	<u>5,407,866</u>

# Jamaica International Insurance Company Limited

Balance Sheet (Continued)

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to reinsurers		399,818	183,621
Insurance reserves	16	3,754,719	3,085,384
Other payables	17	100,236	74,790
Taxation payable		-	10
Due to parent company	26	972	-
Deferred tax liabilities	18	119,545	53,152
Bank overdraft	19	25,146	27,610
Retirement benefit obligations	14	80,959	71,406
		<u>4,481,395</u>	<u>3,495,973</u>
<b>Shareholders' Equity</b>			
Share capital	20	1,065,076	1,065,076
Capital and fair value reserves	21	52,745	180,629
Retained earnings		803,648	666,188
		<u>1,921,469</u>	<u>1,911,893</u>
		<u>6,402,864</u>	<u>5,407,866</u>

Approved for issue by the Board of Directors on 30 March 2009 and signed on its behalf by:

Peter Moss-Solomon

Chairman

Andrew C. H. Levy

Managing Director

# Jamaica International Insurance Company Limited

Profit and Loss Account

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2008 \$'000	2007 \$'000
<b>Gross Premiums Written</b>		3,467,770	3,810,859
Reinsurance ceded		(1,733,360)	(2,228,337)
Net premiums written		1,734,410	1,582,522
Change in unearned premiums, net		(94,775)	(123,069)
<b>Net Premiums Earned</b>		1,639,635	1,459,453
Commission income		194,866	192,423
Commission expense		(261,922)	(245,589)
Claims expense		(1,146,366)	(1,023,315)
Underwriting expenses		(23,545)	(16,053)
Administration expenses		(551,619)	(454,283)
<b>Underwriting Loss</b>		(148,951)	(87,364)
Other income	22	506,618	366,811
Other operating expenses		(116,560)	(63,120)
<b>Profit before Taxation</b>		241,107	216,327
Taxation	25	(82,243)	(65,431)
<b>NET PROFIT</b>		158,864	150,896

# Jamaica International Insurance Company Limited

## Statement of Changes in Equity

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

Note	Number of Shares	Share Capital	Capital and Fair Value Reserves	Retained Earnings	Total
	'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2007	265,064	1,065,076	174,041	532,995	1,772,112
Net income recognised directly in equity					
Fair value gains -					
Available-for-sale investments	-	-	6,588	-	6,588
	-	-	6,588	-	6,588
Net profit	-	-	-	150,896	150,896
Total recognised income for the year		-	6,588	150,896	157,484
Dividends on preference shares	-	-	-	(17,703)	(17,703)
<b>Balance at 31 December 2007</b>	<b>865,194</b>	<b>1,065,076</b>	<b>180,629</b>	<b>666,188</b>	<b>1,911,893</b>
Net (losses)/income recognised directly in equity					
Fair value gains/(losses) -					
Fixed assets, net of deferred tax	-	-	35,416	-	35,416
Available-for-sale investments	-	-	(163,302)	-	(163,302)
	-	-	(127,884)	-	(127,884)
Net profit	-	-	-	158,864	158,864
Total recognised (losses)/income for the year	-	-	(127,884)	158,864	30,980
Dividends on preference shares	-	-	-	(21,404)	(21,404)
<b>Balance at 31 December 2008</b>	<b>865,194</b>	<b>1,065,076</b>	<b>52,745</b>	<b>803,648</b>	<b>1,921,469</b>



# Jamaica International Insurance Company Limited

## Statement of Cash Flows

Year ended 31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

	2008 \$'000	2007 \$'000
<b>Cash Flows from Operating Activities</b>		
Premiums received	3,296,008	3,773,254
Reinsurance paid	(1,524,637)	(2,350,020)
Commissions received	219,599	193,485
Commissions paid	(285,658)	(252,592)
Claims paid	(1,024,530)	(809,923)
Rent received	11,031	17,402
Other receipts	50,618	35,011
Underwriting, administration and other operating expenditure paid	(623,822)	(429,300)
Taxation paid	(73,255)	(102,276)
Cash provided by operating activities	<u>45,354</u>	<u>75,041</u>
<b>Cash Flows from Financing Activities</b>		
Dividends on preference shares	-	(33,891)
Cash used in financing activities	<u>-</u>	<u>(33,891)</u>
<b>Cash Flows from Investing Activities</b>		
Interest received	334,092	272,594
Investments	(148,897)	(335,020)
Additions to fixed assets	(30,919)	(22,409)
Proceeds on disposal of fixed assets	3,862	1,738
Cash provided by/(used in) investing activities	<u>154,138</u>	<u>(83,097)</u>
	203,492	(41,947)
Exchange gain on cash and cash equivalents	<u>19,824</u>	<u>2,518</u>
Increase/(decrease) in cash and cash equivalents	223,316	(39,429)
Cash and cash equivalents at beginning of year	<u>506,285</u>	<u>545,714</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 8)</b>	<u><u>729,601</u></u>	<u><u>506,285</u></u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 1. Identification and Activities

- (a) Jamaica International Insurance Company Limited (the company) is a limited liability company incorporated and domiciled in Jamaica. The company is a wholly owned subsidiary of GraceKennedy Limited, which is also incorporated in Jamaica and which is its ultimate parent company. The company has also issued preference shares, which are held by fellow subsidiary, GraceKennedy (St. Lucia) Limited.
- (b) The registered office of the company and its ultimate parent is 73 Harbour Street, Kingston, Jamaica.
- (c) The company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal activity is the underwriting of general insurance business.

## 2. Significant Accounting Policies

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

### (a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on managements' best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

### ***Amendments to and interpretations of published standards effective in 2008 which are relevant to the company's operations***

Certain new interpretations and amendments to existing standards have been published that became effective during the current financial year.

**IFRIC 11, 'IFRS 2 - Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007).** This interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash settled share-based payment transactions in the stand-alone accounts of the parent and group companies. Management has determined that the adoption of IFRIC 11 would not have a material impact on the company's accounts, and hence no adjustments have been made for these amounts.

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

#### ***Amendments to and interpretations of published standards effective in 2008 which are relevant to the company's operations (continued)***

**IAS 39 (Amendment), 'Reclassification of financial assets'**. An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from available-for-sale category to the loans and receivables category, a financial asset that would have met the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future or to maturity. The company did not utilise the provisions of the amendment therefore, no financial assets were reclassified.

**IFRS 7 (Amendment), 'Financial instruments'**. An amendment to the standard, issued in October 2008, requires that for financial assets reclassified in accordance with IAS 39 (amendment), an entity is required to disclose details of carrying amounts and fair values until they are derecognised, together with details of the fair value gain or loss that would have been recognised in the profit and loss or equity if the financial asset had not been reclassified. The company did not utilise the provisions of the IAS 39 amendment therefore, no further disclosures are required.

#### ***Interpretations of published standards effective in 2008 but which are not relevant to the company's operations***

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant for the company's operations:

- IFRIC 12, 'Service concession arrangements' (effective for annual period beginning on or after 1 January 2008).

#### ***Standards and amendments to existing standards that are not yet effective, are relevant to the company's operations and have not been early adopted by the company***

The following standards and amendments have been published and are mandatory for accounting periods beginning on or after 1 January 2009 or later periods and are relevant to the company's operations. These have not been early adopted by the company.

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

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. The amendment clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

*Standards and amendments to existing standards that are not yet effective, are relevant to the company's operations and have not been early adopted by the company (continued)*

**IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).** The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The company will apply IAS 1 (Revised) from 1 January 2009 and has elected to present one performance statement.

**IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).** The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The company will apply IFRS 2 (Amendment) from 1 January 2009 but it is not expected to have a significant impact on the company's profit and loss account.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

***Standards and amendments to existing standards that are not yet effective, are relevant to the company's operations and have not been early adopted by the company (continued)***

**IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).** The amendment states that an asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. There has also been deletion of wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The company will apply IAS 38 (Amendment) from 1 January 2009 but it is not expected to have a significant impact on the company's profit and loss account.

**IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).** The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment. It also clarifies that an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets was also amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The amendment also deletes guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised. The company will apply IAS 38 (Amendment) from 1 January 2009 but it is not expected to have a significant impact on the company's profit and loss account.

***Standards, interpretations of and amendments to existing standards that are not yet effective and not relevant for the company's operations***

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the company's operations:

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009).
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009).
- IAS 27 (Amendment), 'Consolidated separate financial statements' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

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

*Interpretations and amendments to existing standards that are not yet effective and not relevant for the company's operations (continued)*

- IAS 39 (Amendment), 'Financial instruments: Recognition and Measurement' (effective from 1 January 2009).
- Amendment to IAS 39, 'Eligible hedged items' (effective from 1 July 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IFRS 7, 'Financial instruments: Disclosures' (effective 1 January 2009).
- IFRS 8, 'Operating segments' (effective for annual period beginning on or after 1 January 2009).
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).
- IFRIC 18, 'Transfers of assets from customers' (effective from 1 July 2009).

### (b) Foreign currency translation

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

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

### (c) Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, investments, amounts due from or to policyholders, brokers, agents, reinsurers, other receivables, due from parent company and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The determination of the fair values of the company's financial instruments are discussed in Note 5.

### (d) Cash and cash equivalents

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (e) Investments

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

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

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

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

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

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

### (f) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The company's insurance contracts are classified as short-term insurance contracts which include casualty and property insurance contracts.

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

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (f) Insurance contracts (continued)

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

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

### (g) Insurance receivables and payables

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

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

### (h) Reinsurance ceded

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

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

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

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



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (i) Deferred policy acquisition costs

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

### (j) Fixed assets and depreciation

Land and buildings are shown at fair market value, based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. All other fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure directly attributable to the acquisition of the items.

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

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

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

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (k) Intangible assets

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

### (l) Impairment of long-lived assets

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

### (m) Insurance reserves

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

#### (i) Unearned premium reserve

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

#### (ii) Unearned commission

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

#### (iii) Claims equalisation reserve

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

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

The reserve for claims incurred but not reported (IBNR) has been calculated by an independent actuary using the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method (Note 16). This calculation is done in accordance with the Insurance Act 2001.

#### (v) Claims outstanding

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (m) Insurance reserves (continued)

#### (vi) Unexpired risk reserve

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

### (n) Payables

Payables are stated at historical cost.

### (o) Income taxes

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

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the balance sheet date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

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

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

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.

### (p) Provisions

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

### (q) Borrowings

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (r) Employee benefits

#### (i) Pension obligations

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

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

#### (ii) Other retirement obligations

The company provides retirement healthcare, insurance and gratuity benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

#### (iii) Leave accrual

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

#### (iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (s) Revenue recognition

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

#### ***Sale of insurance services***

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

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

#### ***Interest income***

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

#### ***Dividend income***

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

### (t) Dividends

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

### (u) Comparative information

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Insurance and Financial Risk Management

The company's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

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

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

(i) Finance Department

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

(ii) Investment and Loan Committee

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

(iii) Risk and Reinsurance Department

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

(iv) Audit Committee

The Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The most important types of risks are insurance, credit, liquidity, market and other operational risk. Market risk includes currency risk, interest rate and other price risk.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

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

### (a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the company faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the company's insurance contracts is, however, concentrated within Jamaica.

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk (continued)

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

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

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

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

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

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



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk (continued)

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

	2008		2007	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property –				
Fire and consequential loss	348,975	4,230	290,812	3,525
Boiler and machinery	141,000	2,643	141,000	2,543
Engineering	211,500	3,966	211,500	3,965
Burglary, money and goods in transit	9,375	4,688	8,812	3,525
Glass and other	3,750	1,875	3,525	1,410
Liability	225,000	11,250	211,500	10,575
Marine, aviation and transport	13,200	600	13,200	600
Motor	5,000	5,000	4,500	4,500
Pecuniary loss –				
Fidelity	9,375	4,688	8,812	3,525
Surety/Bonds	150,000	30,000	150,000	30,000
Personal accident	11,250	5,625	10,575	4,230
Personal property	348,975	4,230	290,812	3,525

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (a) Insurance risk (continued)

#### *Sensitivity Analysis of Actuarial Liabilities*

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

#### Actuarial Assumptions

(i) In applying the noted methodologies, the following assumptions were made:

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

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

(ii) Provision for adverse deviation assumptions

The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin for adverse deviation in each assumption.

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

# Jamaica International Insurance Company Limited

## Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

#### (a) Insurance risk (continued)

##### *Development Claim Liabilities*

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The table below illustrates how the company's estimate of the ultimate claims liability for accident years 2004 - 2007 has changed at successive year-ends, up to 2008. Updated unpaid claims and adjustment expenses (UCAE) and IBNR estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

		2004	2004	2005	2005	2006	2006	2007	2007	2008	2008
		and	and	and	and	and	and	and	and	and	and
		2004	prior	2005	prior	2006	prior	2007	prior	2008	prior
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2004</b>	Paid during year	230,713	294,927								
	UCAE, end of year	170,505	434,689								
	IBNR, end of year	11,108	52,865								
	Ratio: excess (deficiency)										
<b>2005</b>	Paid during year	71,488	99,679	411,620	511,299						
	UCAE, end of year	78,000	302,947	325,355	628,302						
	IBNR, end of year	9,105	26,271	34,829	61,100						
	Ratio: excess (deficiency)		12.03%								
<b>2006</b>	Paid during year	9,705	15,816	134,449	150,265	566,226	716,491				
	UCAE, end of year	59,435	153,847	153,011	306,858	479,298	786,156				
	IBNR, end of year	4,406	12,236	8,508	20,744	41,046	61,790				
	Ratio: excess (deficiency)		42.25%		30.68%						
<b>2007</b>	Paid during year	4,909	10,224	19,682	29,906	197,103	227,009	582,914	809,923		
	UCAE, end of year	50,112	135,129	133,817	268,946	286,341	555,287	438,716	994,003		
	IBNR, end of year	3,195	9,253	4,610	13,863	15,726	29,589	37,746	67,335		
	Ratio: excess (deficiency)	23.24%	44.60%	18.78%	32.84%	4.07%	4.25%				
<b>2008</b>	Paid during year	8,140	31,148	42,849	73,997	78,298	152,295	248,085	400,380	624,150	1,024,530
	UCAE, end of year	29,762	72,818	98,010	170,828	225,159	395,987	279,103	675,090	450,997	1,126,087
	IBNR, end of year	580	4,969	1,854	6,823	3,866	10,689	11,195	21,884	35,203	57,087
	Ratio: excess (deficiency)	31.40%	51.87%	17.59%	37.36%	3.06%	7.31%	(13.00%)	(3.39%)		

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (b) Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The company selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the company are summarised below:

a) The retention limit or maximum exposure on insurance policies for all facultative reinsurance treaties for the company range between \$600,000 and \$10,000,000 (2007 - \$720,000 and \$10,000,000).

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

- (i) Property and allied perils 60%:40% Quota Share of premiums i.e. 60% ceded premiums and 40% retention.
- (ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US\$150,000 for any one loss or event.
- (iii) Catastrophe excess of loss treaty which covers losses in various layers, the maximum of which is US\$24,900,000 for any one event.

c) The company insures with several reinsurers. Of significance are Munich Reinsurance Company, Munich, Federal Republic of Germany and Swiss Reinsurance Company, Ontario, Canada. All other reinsurers carry lines under 10%. At 31 December, the A.M. Best credit ratings for the main reinsurers were as follows:

	<b>2008</b>	<b>2007</b>
Munich Reinsurance Company	A <sup>+</sup>	A <sup>+</sup>
Swiss Reinsurance Company	A <sup>+</sup>	A <sup>+</sup>

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

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Property	826,099	305,608
Motor	5,728	8,543
Marine	478	4,327
Liability	6,735	6,568
Pecuniary loss	998	4,216
Personal accident	(481)	84
	<u>839,527</u>	<u>329,346</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk

The company is exposed to financial risk through its financial assets, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, market risk, cash flow risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and market risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the company's financial performance.

### (i) Credit risk

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

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

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

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

### (i) Reinsurance

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

##### (ii) Premium and other receivables

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

##### (iii) Investments

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

#### **Maximum exposure to credit risk**

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Credit risk exposures are as follows:		
Recoverable from reinsurers and coinsurers	963,283	473,139
Investments	2,410,416	2,306,232
Due from agents, brokers & policyholders	431,837	260,075
Cash and short term investments	754,747	533,895
Due from parent company	-	1,207
Other receivables	18,126	25,938
	<u>4,578,409</u>	<u>3,600,486</u>

The above table represents a worst case scenario of credit risk exposure to the company at 31 December 2008 and 2007.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

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

Premium receivables that are less than two months past due are not considered impaired. As of 31 December 2008, premium receivables of \$99,622,000 (2007 - \$53,501,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
61 to 90 days	49,473	27,035
More than 90 days	50,149	26,466
	<u>99,622</u>	<u>53,501</u>

Premium receivables

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Agents & Brokers	324,581	183,157
Direct	111,277	80,939
	<u>435,858</u>	<u>264,096</u>
Less: Provision for credit losses	(4,021)	(4,021)
	<u>431,837</u>	<u>260,075</u>

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

Debt securities

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Government of Jamaica	2,086,130	2,221,820
Corporate	207,210	62,365
Other	767,509	487,314
	<u>3,060,849</u>	<u>2,771,499</u>

#### (ii) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

#### ***Liquidity risk management process***

The company's liquidity management process, as carried out within the company and monitored by the Finance Department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investment;
- (v) Monitoring balance sheet liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;
- (vi) Managing the concentration and profile of debt maturities.



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

##### *Liquidity risk management process (continued)*

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

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

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

##### *Financial liabilities cash flows*

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

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
<b>As at 31 December 2008:</b>						
Bank overdraft	25,146	-	-	-	-	25,146
Claims outstanding	-	-	2,105,668	-	-	2,105,668
Due to reinsurers	-	39,234	360,584	-	-	399,818
Due to parent company	972	-	-	-	-	972
Other payables	39,130	61,106	-	-	-	100,236
<b>Total financial liabilities (contractual maturity dates)</b>	<b>65,248</b>	<b>100,340</b>	<b>2,466,252</b>	<b>-</b>	<b>-</b>	<b>2,631,840</b>
	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
<b>As at 31 December 2007:</b>						
Bank overdraft	27,610	-	-	-	-	27,610
Claims outstanding	-	-	1,501,162	-	-	1,501,162
Due to reinsurers	70,579	15,285	97,757	-	-	183,621
Other payables	-	74,790	-	-	-	74,790
<b>Total financial liabilities (contractual maturity dates)</b>	<b>98,189</b>	<b>90,075</b>	<b>1,598,919</b>	<b>-</b>	<b>-</b>	<b>1,787,183</b>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

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

#### (iii) Market risk

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

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

#### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

The company also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The company ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

##### Currency risk (continued)

##### *Concentrations of currency risk*

The table below summarises the company exposure to foreign currency exchange rate risk at 31 December.

	Jamaican\$ J\$'000	XCD (EC\$) J\$'000	US\$ J\$'000	Total J\$'000
<b>At 31 December 2008:</b>				
<b>Financial Assets</b>				
Cash & short term investments	517,216	-	237,531	754,747
Investments	1,838,885	-	594,463	2,433,348
Due from agents, brokers & policyholders	287,715	533	143,589	431,837
Recoverable from reinsurers and coinsurers	278,604	-	684,679	963,283
Other receivables	18,126	-	-	18,126
Total financial assets	2,940,546	533	1,660,262	4,601,341
<b>Financial Liabilities</b>				
Due to reinsurers	158,241	456	241,121	399,818
Claims outstanding	1,405,586	66	700,016	2,105,668
Other payables	75,844	-	24,392	100,236
Due to parent company	972	-	-	972
Bank overdraft	25,146	-	-	25,146
Total financial liabilities	1,665,789	552	965,529	2,631,840
<b>Net financial position</b>	<b>1,274,757</b>	<b>11</b>	<b>694,733</b>	<b>1,969,501</b>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

#### Currency risk (continued)

#### Concentrations of currency risk (continued)

	Jamaican\$ J\$'000	US\$ J\$'000	Total J\$'000
<b>At 31 December 2007:</b>			
<b>Financial Assets</b>			
Cash & short term investments	293,996	239,899	533,895
Investments	1,734,491	613,114	2,347,605
Due from agents, brokers & policyholders	209,128	50,947	260,075
Recoverable from reinsurers and coinsurers	240,410	232,729	473,139
Other receivables	25,938	-	25,938
Due from parent company	1,207	-	1,207
<b>Total financial assets</b>	<b>2,505,170</b>	<b>1,136,689</b>	<b>3,641,859</b>
<b>Financial Liabilities</b>			
Due to reinsurers	99,042	84,579	183,621
Claims outstanding	1,248,815	252,347	1,501,162
Other payables	66,352	8,438	74,790
Bank overdraft	27,610	-	27,610
<b>Total financial liabilities</b>	<b>1,441,819</b>	<b>345,364</b>	<b>1,787,183</b>
<b>Net financial position</b>	<b>1,063,351</b>	<b>791,325</b>	<b>1,854,676</b>

#### Foreign currency sensitivity

The following tables indicate the currencies to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% revaluation and a 10% devaluation in foreign currency rates. 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 net profit and equity shown below is the total of the individual sensitivities done for each of the assets/liabilities.

	% Change in Currency Rate	Effect on Net Profit	Effect on Equity	% Change in Currency Rate	Effect on Net Profit	Effect on Equity
	2008	2008 \$'000	2008 \$'000	2007	2007 \$'000	2007 \$'000
<b>Currency:</b>						
USD – Revaluation	5%	(23,158)	(23,158)	5%	(39,392)	(39,392)
USD – Devaluation	10%	46,316	46,316	5%	39,392	39,392
EC – Revaluation	5%	(1)	(1)	-	-	-
EC - Devaluation	10%	1	1	-	-	-

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

##### Interest rate risk

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

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

The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

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

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
<b>At 31 December 2008:</b>							
<b>Financial Assets</b>							
Cash & short term investments	754,747	-	-	-	-	-	754,747
Investments	509,399	201,264	1,050,359	325,669	323,725	22,932	2,433,348
Due from agents, brokers & policyholders	-	-	-	-	-	431,837	431,837
Recoverable from reinsurers and coinsurers	-	-	-	-	-	963,283	963,283
Other receivables	-	-	-	-	-	18,126	18,126
<b>Total financial assets</b>	<b>1,264,146</b>	<b>201,264</b>	<b>1,050,359</b>	<b>325,669</b>	<b>323,725</b>	<b>1,436,178</b>	<b>4,601,341</b>
<b>Financial Liabilities</b>							
Due to reinsurers	-	-	-	-	-	399,818	399,818
Claims outstanding	-	-	-	-	-	2,105,668	2,105,668
Other payables	-	-	-	-	-	100,236	100,236
Due to parent company	-	-	-	-	-	972	972
Bank overdraft	25,146	-	-	-	-	-	25,146
<b>Total financial liabilities</b>	<b>25,146</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,606,694</b>	<b>2,631,840</b>
<b>Total interest repricing gap</b>	<b>1,239,000</b>	<b>201,264</b>	<b>1,050,359</b>	<b>325,669</b>	<b>323,725</b>	<b>(1,170,516)</b>	<b>1,969,501</b>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### (c) Financial risk (continued)

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

##### Interest rate risk (continued)

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
<b>At 31 December 2007:</b>							
<b>Financial Assets</b>							
Cash & short term investments	533,895	-	-	-	-	-	533,895
Investments	380,308	371,246	888,907	331,696	333,727	41,721	2,347,605
Due from agents, brokers & policyholders	-	-	-	-	-	260,075	260,075
Recoverable from reinsurers and coinsurers	-	-	-	-	-	473,139	473,139
Other receivables	-	-	-	-	-	25,938	25,938
Due from parent company	-	-	-	-	-	1,207	1,207
<b>Total financial assets</b>	<b>914,203</b>	<b>371,246</b>	<b>888,907</b>	<b>331,696</b>	<b>333,727</b>	<b>802,080</b>	<b>3,641,859</b>
<b>Financial Liabilities</b>							
Due to reinsurers	-	-	-	-	-	183,621	183,621
Claims outstanding	-	-	-	-	-	1,501,162	1,501,162
Other payables	-	-	-	-	-	74,790	74,790
Bank overdraft	27,610	-	-	-	-	-	27,610
<b>Total financial liabilities</b>	<b>27,610</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,759,573</b>	<b>1,787,183</b>
<b>Total interest repricing gap</b>	<b>886,593</b>	<b>371,246</b>	<b>888,907</b>	<b>331,696</b>	<b>333,727</b>	<b>(957,493)</b>	<b>1,854,676</b>

##### **Interest rate sensitivity**

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

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

	Effect on Net Profit 2008 \$'000	Effect on Equity 2008 \$'000	Effect on Net Profit 2007 \$'000	Effect on Equity 2007 \$'000
<b>Change in basis points:</b>				
-5% (2007 - -1%)	(13,833)	204,580	(5,160)	681
+5% (2007 - +1%)	13,833	(82,042)	5,160	(296)

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 4. Capital Management

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

- (i) To comply with the capital requirements set by the regulators of the insurance markets within which the company operates;
- (ii) To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of its business.

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

	Actual 2008 \$'000	Required 2008 \$'000	Actual 2007 \$'000	Required 2007 \$'000
MAT	132.70%	135.00%	134.61%	120.00%

The minimum standard stipulated by the Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation 2002 is that a general insurance company shall have a minimum MAT percentage of 135% for the financial year end 2008 -2009 (120% - 2007).

The company is therefore in technical breach of Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation 2002.

The FSC requires each insurance company to hold the minimum level of the regulatory capital of \$75,000,000.

## 5. Fair Value Estimation

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 (such as a recognised stock exchange) exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

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) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or valuation techniques such as discounted cash flow analysis;
- (ii) The fair value of short-term assets and liabilities maturing within one year is assumed to approximate their carrying amount. This assumption is applied to the short-term elements of all other financial assets and financial liabilities; and
- (iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

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

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

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

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

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

### ***Income taxes***

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

### *Impairment of intangible assets*

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

## 7. Responsibilities of the Appointed Actuary and External Auditors

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

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and his report on the insurance liabilities.

## 8. Cash and Cash Equivalents

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

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	104,314	68,628
Short term investments (Note 9)	650,433	465,267
	<u>754,747</u>	<u>533,895</u>
Bank overdraft (Note 19)	(25,146)	(27,610)
	<u>729,601</u>	<u>506,285</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 \$7,224,000 (2007 – \$3,892,000).

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

	<b>2008</b>	<b>2007</b>
	<b>%</b>	<b>%</b>
Jamaican dollar denominated	17.44	12.48
United States dollar denominated	<u>6.11</u>	<u>6.28</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 9. Investments

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

	Years to Maturity				Total	Total
	Within 1	1 to	5 to	Over 10	2008	2007
	year	5 years	10 years	years	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Debt securities:						
Government of Jamaica	1,687,884	334,026	134,053	199,767	2,355,730	2,221,820
Corporate	207,210	-	-	-	207,210	62,365
Certificates of deposit	497,909	-	-	-	497,909	487,314
	<u>2,393,003</u>	<u>334,026</u>	<u>134,053</u>	<u>199,767</u>	<u>3,060,849</u>	<u>2,771,499</u>
Short term investments (Note 8)					(650,433)	(465,267)
					<u>2,410,416</u>	<u>2,306,232</u>
Quoted equity securities					22,286	40,727
Unquoted equity securities					646	646
					<u>2,433,348</u>	<u>2,347,605</u>

Investments include interest receivable of \$97,654,000 (2007 – \$62,361,000).

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

Included in investments are Local Registered Stocks valued at \$45,000,000, which have been pledged with the regulator, the Financial Services Commission, pursuant to Section 8(1) (b) of the Insurance Regulations, 2001. Also included are Certificates of Deposits valued at US\$226,819; J\$ Equivalent \$18,136,995 (2007 – US\$219,213; J\$ Equivalent \$15,383,406) which have been pledged with the regulator in Turks and Caicos.

## 10. Due from Agents, Brokers and Policyholders

	2008 \$'000	2007 \$'000
Insurance receivables –		
Agents and brokers	324,581	183,157
Policyholders	111,277	80,939
	<u>435,858</u>	<u>264,096</u>
Less: Provision for impairment	(4,021)	(4,021)
	<u>431,837</u>	<u>260,075</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

## 11. Recoverable from Reinsurers and Coinsurers

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Claims recoverable from coinsurers	40,789	33,315
Reinsurers' portion of claims outstanding (Note 16)	922,494	439,824
Reinsurers' portion of unearned premiums (Note 16)	731,500	783,632
	<u>1,694,783</u>	<u>1,256,771</u>

## 12. Other Receivables

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Staff loans	1,563	1,902
Prepayments	13,986	12,017
Other	2,577	12,019
	<u>18,126</u>	<u>25,938</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 13. Fixed Assets

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Total \$'000
<b>2008</b>					
At Cost or Valuation -					
At 1 January 2008	214,414	102,711	91,522	16,424	425,071
Additions	-	-	24,563	6,356	30,919
Disposals	-	(97,695)	(2,570)	(5,147)	(105,412)
Revaluation	45,999	-	-	-	45,999
At 31 December 2008	260,413	5,016	113,515	17,633	396,577
Depreciation -					
At 1 January 2008	2,803	98,043	33,280	9,086	143,212
Charge for the year	2,576	501	10,067	4,429	17,573
On disposals	-	(97,647)	(685)	(4,117)	(102,449)
Revaluation	(4,750)	-	-	-	(4,750)
At 31 December 2008	629	897	42,662	9,398	55,961
Net Book Value -					
31 December 2008	259,784	4,119	70,853	8,235	342,991
<b>2007</b>					
At Cost or Valuation -					
At 1 January 2007	214,215	99,410	76,889	16,401	406,915
Additions	199	3,301	15,819	3,090	22,409
Disposals	-	-	(1,186)	(3,067)	(4,253)
At 31 December 2007	214,414	102,711	91,522	16,424	425,071
Depreciation -					
At 1 January 2007	237	97,762	26,490	7,047	131,536
Charge for the year	2,566	281	7,698	4,326	14,871
On disposals	-	-	(908)	(2,287)	(3,195)
At 31 December 2007	2,803	98,043	33,280	9,086	143,212
Net Book Value -					
31 December 2007	211,611	4,668	58,242	7,338	281,859

Land and buildings are carried at fair market value based on a valuation in 2008 by D.C. Tavares & Finson Company Limited, professional valuers. If land and buildings were stated on the historical cost basis, the cost would be \$85,972,000 (2007 – \$85,972,000) with accumulated depreciation of \$14,379,000 (2007 – \$13,424,000).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 14. Retirement Benefits

### *Pension benefits*

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

### *Other retirement benefits*

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

	Pension benefits		Other retirement benefits	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Amounts recognised in the balance sheet	90,826	90,836	(80,959)	(71,406)
Amounts recognised in the profit and loss account (Note 24)	(994)	(5,653)	(16,514)	(16,873)

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

	Pension benefits		Other retirement benefits	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Fair value of plan assets	245,402	251,311	-	-
Present value of obligations	(332,231)	(168,009)	(75,413)	(77,403)
	(86,829)	83,302	(75,413)	(77,403)
Unrecognised actuarial losses/(gains)	177,655	7,534	(5,546)	5,997
	90,826	90,836	(80,959)	(71,406)

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

	Pension benefits		Other retirement benefits	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current service cost, net of employee contributions	(5,336)	(6,986)	(5,981)	(6,998)
Interest cost	(23,532)	(22,326)	(10,388)	(10,221)
Expected return on plan assets	27,874	24,852	-	-
Actuarial (losses)/gains recognised	-	(1,193)	(145)	346
	994	(5,653)	(16,514)	(16,873)

The actual return on plan assets was a gain of \$10,095,000 (2007 – \$23,813,000).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 14. Retirement Benefits (Continued)

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

	Pension benefits		Other retirement benefits	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At beginning of year	(168,009)	(173,175)	(77,403)	(78,808)
Current service cost	(17,482)	(16,418)	(5,981)	(6,998)
Interest cost	(23,532)	(22,326)	(10,388)	(10,221)
Benefits paid	8,944	7,078	6,961	1,268
Actuarial (losses)/gains	(132,152)	36,832	11,398	17,356
At end of year	<u>(332,231)</u>	<u>(168,009)</u>	<u>(75,413)</u>	<u>(77,403)</u>

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

	Pension benefits	
	2008 \$'000	2007 \$'000
At beginning of year	251,311	224,360
Employer contributions	984	784
Employee contributions	12,146	9,432
Expected return on plan assets	27,874	24,852
Benefits paid	(8,944)	(7,078)
Actuarial losses	(37,969)	(1,039)
At end of year	<u>245,402</u>	<u>251,311</u>

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

	2008 %	2007 %
Equity	19	27
Debt	2	2
Government securities	51	57
Other	28	14
	<u>100</u>	<u>100</u>

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

Expected employer contributions to the plan for the year ended 31 December 2009 amount to \$1,010,000.

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 14. Retirement Benefits (Continued)

The principal actuarial assumptions used were as follows:

	<b>2008</b>	<b>2007</b>
Discount rate	16.00%	13.00%
Long term inflation rate	10.00%	8.75%
Expected return on plan assets	11.00%	12.00%
Future salary increases	12.50%	9.50%
Future pension increases	10.00%	3.50%
Long term increase in health costs	<u>10.50%</u>	<u>10.00%</u>

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

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of \$4,884,000/(\$3,308,000), and an increase/(decrease) in the defined benefit obligation of \$19,055,000/(\$14,281,000).

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Fair value of plan assets	245,402	251,311	224,360	557,579	177,747
Defined benefit obligation	(332,231)	(168,009)	(173,175)	(131,184)	(102,294)
Surplus/(Deficit)	<u>(86,829)</u>	<u>83,302</u>	<u>51,185</u>	<u>426,395</u>	<u>75,453</u>
Experience adjustments –					
Fair value of plan assets	(37,969)	(1,039)	(363,133)	354,133	18,468
Defined benefit obligation	(18,429)	(4,260)	(660)	11,252	4,699

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Defined benefit obligation	(75,413)	(77,403)	(78,808)	(57,510)	(47,569)
Experience adjustments	<u>38</u>	<u>(4,473)</u>	<u>269</u>	<u>825</u>	<u>3,033</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

**31 December 2008**

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Intangible Asset

The company assumed the complete portfolio of Jamaican policies held by Dyoll Insurance Company Limited. The cost of the transaction, including directly attributable fees and expenses, was \$589,088,000.

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Carrying amount of insurance portfolio acquired	510,543	549,816
Less: Amortisation	(39,272)	(39,273)
	<u>471,271</u>	<u>510,543</u>

## 16. Insurance Reserves

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Gross –		
Claims outstanding	2,105,668	1,501,162
Unearned premiums	1,546,471	1,503,828
Unearned commission	102,580	77,846
Claims equalisation	-	2,548
	<u>3,754,719</u>	<u>3,085,384</u>
Reinsurance ceded –		
Claims outstanding (Note 11)	922,494	439,824
Unearned premiums (Note 11)	731,500	783,632
	<u>1,653,994</u>	<u>1,223,456</u>
Net –		
Claims outstanding	1,183,174	1,061,338
Unearned premiums	814,971	720,196
Unearned commission	102,580	77,846
Claims equalisation	-	2,548
	<u>2,100,725</u>	<u>1,861,928</u>



# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 16. Insurance Reserves (Continued)

An actuarial valuation was performed by the company's appointed actuary, Josh Worsham, FCAS, MAAA of KPMG Bermuda to value the policy and claims liabilities of the company as at 31 December 2008, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles. The actuary has stated that his report conforms to the standards of practice as established by the Canadian Institute of Actuaries, with such changes as directed by the Financial Services Commission, specifically, that the valuation of some policy and claims liabilities not reflect the time value of money.

In arriving at his valuation, the actuary employed the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method.

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

In his opinion dated 27 March 2009, the actuary found that the amount of policy and claims liabilities represented in the balance sheet at 31 December 2008 makes proper provision for the future payments under the company's policies and meets the requirements of the Insurance Act and other appropriate regulations of Jamaica; that a proper charge on account of these liabilities has been made in the profit and loss account; and that there is sufficient capital available to meet the solvency standards as established by the Financial Services Commission.

The movement in claims outstanding was as follows:

	2008 \$'000	2007 \$'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	1,501,162	1,093,363
Reinsurance ceded	(439,824)	(245,417)
	<u>1,061,338</u>	<u>847,946</u>
Movement during the year –		
Claims incurred, including IBNR	1,146,366	1,023,315
Claims paid	(1,024,530)	(809,923)
	<u>121,836</u>	<u>213,392</u>
Net reserves for claims outstanding at end of year	1,183,174	1,061,338
Reinsurance ceded	922,494	439,824
Gross reserves for claims outstanding at end of year	<u><u>2,105,668</u></u>	<u><u>1,501,162</u></u>

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

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 17. Other Payables

	2008 \$'000	2007 \$'000
Accruals	54,451	45,309
Dividend payable	21,404	-
Other	24,381	29,481
	<u>100,236</u>	<u>74,790</u>

## 18. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33½%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

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

	2008 \$'000	2007 \$'000
At beginning of year	53,152	79,684
Tax charged/(credited) to the profit and loss account (Note 25)	51,060	(26,532)
Tax charged to equity – revaluation of fixed assets	15,333	-
At end of year	<u>119,545</u>	<u>53,152</u>

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

Deferred tax liabilities	Accelerated depreciation \$'000	Revaluation of buildings \$'000	Retirement benefits \$'000	Interest receivable \$'000	Foreign exchange gains \$'000	Total \$'000
At 1 January 2008	-	35,752	30,279	22,084	4,669	92,784
Tax (credited)/charged to the profit and loss account	7,620	-	(4)	12,876	20,354	40,846
Tax charged to equity	-	15,333	-	-	-	15,333
At 31 December 2008	<u>7,620</u>	<u>51,085</u>	<u>30,275</u>	<u>34,960</u>	<u>25,023</u>	<u>148,963</u>

Deferred tax assets	Other \$'000	Decelerated depreciation \$'000	Retirement benefits \$'000	Total \$'000
At 1 January 2008	2,150	13,680	23,802	39,632
Tax credited/(charged) to the profit and loss account	282	(13,680)	3,184	(10,214)
At 31 December 2008	<u>2,432</u>	<u>-</u>	<u>26,986</u>	<u>29,418</u>

These balances include the following:

	2008 \$'000	2007 \$'000
Deferred tax liabilities to be settled after more than 12 months	88,980	66,031
Deferred tax assets to be recovered after more than 12 months	<u>26,986</u>	<u>37,482</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 19. Bank overdraft

	2008 \$'000	2007 \$'000
Bank overdraft	25,146	27,610

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

## 20. Share Capital

	2008 \$'000	2007 \$'000
Authorised, issued and fully paid -		
862,064,000 Ordinary shares	862,064	862,064
3,130,000 Preference shares	203,012	203,012
	<u>1,065,076</u>	<u>1,065,076</u>

Pursuant to the requirements of the Jamaican Companies Act, 2004, the ordinary and preference shares of the company were converted to shares of no par value.

The preference shares were issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary.

## 21. Capital and Fair Value Reserves

	2008 \$'000	2007 \$'000
Realised gain on sale of investments	824	824
Unrealised (loss)/gain on the revaluation of available-for-sale investments	(59,977)	103,323
Unrealised surplus on the revaluation of fixed assets, net of deferred tax	111,898	76,482
	<u>52,745</u>	<u>180,629</u>

## 22. Other Income

	2008 \$'000	2007 \$'000
Interest earned	369,385	284,750
Gain on disposal of fixed assets	899	680
Dividend income	1,470	1,243
Net foreign exchange gains	84,676	14,006
Miscellaneous income	31,266	35,689
Profit commission	7,891	13,041
Rental income	11,031	17,402
	<u>506,618</u>	<u>366,811</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 23. Expenses by Nature

Total underwriting, administration and other operating expenses:

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Advertising and public relations	75,046	54,078
Allocation of central office expenses paid to parent company	76,560	33,120
Amortisation of intangible asset	39,272	39,273
Auditor's remuneration		
Current year	3,293	2,400
Prior year	463	-
Bad debt expense	143	1,012
Bank charges	6,237	5,553
Data processing	31,136	29,746
Depreciation	17,573	14,871
Directors' fees	1,936	1,700
Occupancy - rent, utilities, insurance, security	36,047	31,205
Office expenses	23,870	14,353
Professional fees	6,041	6,088
Registration fees and stamp duty	11,663	10,455
Repairs and maintenance	13,700	12,562
Royalty expense	33,806	-
Staff costs (Note 24)	291,393	260,987
Underwriting expenses –		
Motor	23,283	16,051
Property	262	2
	<u>691,724</u>	<u>533,456</u>

## 24. Staff Costs

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Wages and salaries	221,384	184,014
Statutory contributions	18,589	17,662
Pension – defined benefit (Note 14)	994	5,653
Other retirement benefits (Note 14)	16,514	16,873
Other	33,912	38,785
	<u>291,393</u>	<u>260,987</u>

The number of persons employed full-time by the company at year end was 116 (2007 – 133).

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 25. Taxation

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Current taxation	32,619	91,963
Adjustment to prior year income tax	(1,436)	-
Deferred taxation (Note 18)	51,060	(26,532)
	<u>82,243</u>	<u>65,431</u>

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Profit before taxation	<u>241,107</u>	<u>216,327</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	80,369	72,109
Adjusted for the effects of –		
Tax-free interest income	(5,528)	(5,238)
Tax-free rental income under the Urban Renewal Act	(2,006)	(4,012)
Tax-free dividend income	(490)	(414)
Income not subject to tax	(1,280)	(211)
Dividend paid on preference shares	-	(5,901)
Amortisation of intangible assets	13,091	13,091
Other expenses not deductible for tax purposes	1,768	980
Adjustment to prior year income tax	(1,436)	-
Other charges and credits	(2,245)	(4,973)
	<u>82,243</u>	<u>65,431</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

## 26. Related Party Transactions and Balances

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Cash and cash equivalents –		
Fellow subsidiaries	126,371	154,869
Parent company	379	348
	<u>126,750</u>	<u>155,217</u>
Investments – Fellow subsidiaries	<u>-</u>	<u>116,500</u>
Due from agents, brokers and policyholders –		
Fellow subsidiaries	200,306	60,043
Parent company	636	526
	<u>200,942</u>	<u>60,569</u>
Due to reinsurers – Fellow subsidiaries	<u>(26,433)</u>	<u>(6,293)</u>
Due (to)/from parent company	<u>(972)</u>	<u>1,207</u>
Other payables – Fellow subsidiary	<u>2,795</u>	<u>1,904</u>
Dividend payable – Fellow subsidiary	<u>21,404</u>	<u>-</u>
Borrowings – Fellow subsidiary	<u>25,146</u>	<u>27,610</u>

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

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Staff costs –		
Wages and salaries	21,301	20,285
Statutory contributions	1,704	1,658
	<u>23,005</u>	<u>21,943</u>
Fees as directors	<u>1,936</u>	<u>1,700</u>
Gross premiums written	<u>2,364</u>	<u>1,541</u>

# Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2008

(expressed in Jamaican dollars unless otherwise indicated)

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

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

	<b>2008</b>	<b>2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Gross premiums written –		
Fellow subsidiaries	266,005	191,759
Parent company	103,503	87,980
	<u>369,508</u>	<u>279,739</u>
Commission received – Fellow subsidiaries	<u>7,461</u>	<u>5,273</u>
Commission paid – Fellow subsidiaries	<u>119,430</u>	<u>93,839</u>
Administration expenses – Parent company	<u>8,872</u>	<u>5,358</u>
Other operating expenses –		
Allocation of central office expenses paid to parent company	<u>76,560</u>	<u>33,120</u>
Interest earned –		
Fellow subsidiaries	<u>15,857</u>	<u>17,903</u>
Rental income –		
Fellow subsidiaries	4,135	4,500
Parent company	6,018	12,036
	<u>10,153</u>	<u>16,536</u>
Royalty expense – Fellow subsidiary	<u>33,806</u>	<u>-</u>

