

**Jamaica International Insurance
Company Limited**

**Financial Statements
31 December 2011**

Jamaica International Insurance Company Limited

Index

31 December 2011

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3. EXPRESSION OF OPINION

I have examined the financial condition and valued the policy and claims liabilities of JIIC for its balance sheet as at December 31, 2011 and the corresponding change in the policy and claims liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica. I have relied upon PriceWaterhouseCoopers for the substantial accuracy of the records and information concerning other liabilities, as certified in the attached statement.

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

Claims Liabilities (J\$000)	Carried in Annual Return	Actuary's Estimate
Direct unpaid claims and adjustment expenses:	1,909,326	1,909,325
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	1,909,326	1,909,325
Ceded unpaid claims and adjustment expenses:	388,511	388,511
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	1,520,815	1,520,814

Policy Liabilities (J\$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		1,018,140
Net policy liabilities in connection with unearned premiums:		957,959
Gross unearned premiums:	1,797,285	
Net unearned premiums:	1,090,747	
Premium deficiency:	0	
Other net liabilities:	0	

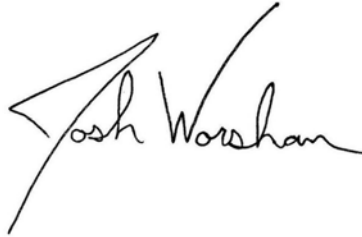


In my opinion:

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

Josh Worsham, FCAS, MAAA

Name of Appointed Actuary



Signature of Appointed Actuary

March 27, 2012
Date





Independent Auditors' Report

To the Members of
Jamaica International Insurance Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Jamaica International Insurance Company Limited, set out on pages 1 to 53, which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaica 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.

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2011, 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script, with a horizontal line drawn underneath the name.

Chartered Accountants
29 March 2012
Kingston, Jamaica

Jamaica International Insurance Company Limited

Statement of Financial Position

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Assets			
Cash and short term investments	8	1,822,355	1,897,270
Investments	9	2,109,273	1,799,156
Due from agents, brokers and policyholders	10	465,154	506,081
Recoverable from reinsurers and coinsurers	11	1,112,601	1,403,738
Deferred policy acquisition costs		150,369	141,416
Other receivables	12	30,075	15,863
Due from group companies	13	-	5,324
Taxation recoverable		65,570	84,274
Fixed assets	14	422,625	420,870
Intangible assets	15	355,157	392,726
Retirement benefit asset	16	3,900	34,754
		<u>6,537,079</u>	<u>6,701,472</u>

Jamaica International Insurance Company Limited


Statement of Financial Position (Continued)


31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Liabilities and Shareholders' Equity			
Liabilities			
Bank overdraft	17	1,733	15,627
Due to reinsurers		268,872	217,935
Insurance reserves	18	3,823,359	3,885,054
Other payables	19	65,774	44,679
Due to group companies	13	1,584	71
Deferred tax liabilities	20	51,102	72,982
Retirement benefit obligations	16	136,839	121,531
		<u>4,349,263</u>	<u>4,357,879</u>
Shareholders' Equity			
Share capital	21	1,065,076	1,065,076
Capital and fair value reserves	22	327,528	306,209
Share options reserve	23	3,504	-
Retained earnings		791,708	972,308
		<u>2,187,816</u>	<u>2,343,593</u>
		<u><u>6,537,079</u></u>	<u><u>6,701,472</u></u>

Approved for issue on behalf of the Board of Directors on 29 March 2012 and signed on its behalf by:


 Peter N Moss Solomon Chairman


 Monica Ladd Director

Jamaica International Insurance Company Limited

Statement of Comprehensive Income

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Gross Premiums Written		3,777,583	4,377,585
Reinsurance ceded		(1,635,554)	(2,537,720)
Net premiums written		2,142,029	1,839,865
Change in unearned premiums, net		(171,217)	(114,240)
Net Premiums Earned		1,970,812	1,725,625
Commission income		328,951	264,491
Commission expense		(335,510)	(291,330)
Claims expense		(1,137,210)	(1,150,835)
Underwriting expenses		(25,648)	(21,840)
Administration expenses		(758,287)	(680,218)
Underwriting Profit/(Loss)		43,108	(154,107)
Other income	24	311,715	408,003
Other operating expenses		(151,041)	(132,918)
Profit before Taxation		203,782	120,978
Taxation	27	(62,696)	(43,232)
Profit for the Year		141,086	77,746
Other Comprehensive Income:			
Revaluation gains on fixed assets	14	-	20,401
Deferred taxation	20	-	(6,801)
Revaluation gains on fixed assets, net of taxes		-	13,600
Fair value gains on available-for-sale financial assets		21,319	159,756
Other comprehensive income, net of taxes		21,319	173,356
Total Comprehensive Income		162,405	251,102

Jamaica International Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital and Fair Value Reserves	Share Options Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2010	1,065,076	132,853	11,021	904,826	2,113,776
Profit for the year	-	-	-	77,746	77,746
Other comprehensive income:					
Fair value gains on fixed assets, net of taxes	-	13,600	-	-	13,600
Fair value gains on available -for-sale financial assets	-	159,756	-	-	159,756
Total other comprehensive income	-	173,356	-	-	173,356
Total comprehensive income	-	173,356	-	77,746	251,102
Transactions with owners:					
Dividends on preference shares	-	-	-	(21,285)	(21,285)
Employee share option scheme:					
Value of expired options (Note 23)	-	-	(11,021)	11,021	-
Balance at 31 December 2010	1,065,076	306,209	-	972,308	2,343,593
Profit for the year	-	-	-	141,086	141,086
Other comprehensive income:					
Fair value gains on available-for-sale financial assets	-	21,319	-	-	21,319
Total comprehensive income	-	21,319	-	141,086	162,405
Transactions with owners:					
Dividends on ordinary shares	-	-	-	(300,000)	(300,000)
Dividends on preference shares	-	-	-	(21,686)	(21,686)
Employee share option scheme:					
Value of services received (Note 23)	-	-	3,504	-	3,504
Balance at 31 December 2011	1,065,076	327,528	3,504	791,708	2,187,816

Jamaica International Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 \$'000	2010 \$'000
Cash Flows from Operating Activities			
Premiums received		3,818,510	4,330,603
Reinsurance paid		(1,579,097)	(2,390,463)
Commissions received		306,494	301,782
Commissions paid		(344,463)	(315,454)
Claims paid	18	(1,062,049)	(1,026,853)
Rent received		5,014	5,065
Underwriting, administration and other operating expenditure paid		(798,340)	(809,365)
Other (payments)/receipts		(1,110)	70,943
Taxation paid		<u>(65,872)</u>	<u>(106,939)</u>
Cash provided by operating activities		<u>279,087</u>	<u>59,319</u>
Cash Flows from Investing Activities			
Interest received		297,563	466,085
Investments		(290,484)	1,175,385
Additions to fixed assets	14	(31,874)	(34,130)
Additions to intangible assets		(35)	-
Proceeds on disposal of fixed assets		<u>4,633</u>	<u>862</u>
Cash (used in)/provided by investing activities		<u>(20,197)</u>	<u>1,608,202</u>
Cash Flows from Financing Activities			
Interest on preference shares paid		(21,686)	(21,285)
Ordinary dividends paid		<u>(300,000)</u>	<u>-</u>
Cash used in financing activities		<u>(321,686)</u>	<u>(21,285)</u>
		(62,796)	1,646,236
Exchange gain/(loss) on cash and cash equivalents		<u>1,775</u>	<u>(6,273)</u>
(Decrease)/increase in cash and cash equivalents		(61,021)	1,639,963
Cash and cash equivalents at beginning of year		<u>1,881,643</u>	<u>241,680</u>
Cash And Cash Equivalents at End of Year	8	<u><u>1,820,622</u></u>	<u><u>1,881,643</u></u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

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

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

2. Significant Accounting Policies

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

(a) Basis of preparation

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

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

New and amended standards and interpretations effective in the current year

Certain new and amended standards and interpretations to existing standards became effective during the current financial year, which have impacted the company's accounting policies and/or financial disclosures as follows. The pronouncements were effective from 1 January 2011, unless otherwise indicated.

IAS 1 (Amendment), 'Presentation of financial statements'

This amendment requires retrospective application. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The company has elected to continue analysis of other comprehensive income in the statement of changes in equity.

IFRS 7, 'Financial Instruments Disclosures'

This amendment clarifies the disclosure requirement by emphasising the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment did not result in any changes to the disclosures in the financial statements.

There are no other new and amended standards and interpretations effective in the current year which are expected to have a significant impact on the accounting policies or financial disclosures of the company.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New and amended standards and interpretations that are not yet effective and not early adopted

The company has concluded that the following standards which are published but not yet effective, are relevant to its operations, and will impact the company's accounting policies and financial disclosures as discussed below. These pronouncements are effective for annual periods beginning on or after the dates noted, and will be applied by the company as of those dates, unless otherwise noted.

IAS 1 (Amendment), 'Presentation of financial statements' (1 July 2012)

The amendment requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially recyclable to profit or loss. The amendment does not address which items should be presented in OCI, and the option to present items of OCI either before tax or net of tax has been retained. The only anticipated impact on adoption is the disclosure of items presented in OCI in the statement of comprehensive income.

IAS 19, 'Employee Benefits' (1 January 2013)

This amendment eliminates the corridor approach and recognises all actuarial gains and losses in OCI as they occur. All past service costs will be recognised immediately and interest costs and expected return on plan assets will be replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset or liability. Management anticipates that adoption will have an impact on amounts reported in respect of the company's defined benefit plan, but have not yet quantified that impact.

IFRS 13, 'Fair value measurement' (1 January 2013)

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards, for both financial instruments and non-financial instruments. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. In general, the disclosure requirements of IFRS 13 are more extensive than those required in current standards. The company anticipates that application will impact amounts reported in the financial statements, as well result in extended disclosures.

IFRS 9, 'Financial instruments' (1 January 2015)

The standard introduces new requirements for the classification, measurement and recognition of financial assets and financial liabilities, in order to ensure that relevant and useful information is presented to users of financial statements. It replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The determination of classification will be made at initial recognition, and depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Management is assessing the timing of its adoption by the company, and the potential impact of adoption.

There are no other new and amended standards and interpretations effective in the current year which are not yet effective which are expected to have a significant impact on the accounting policies or financial disclosures of the company.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Foreign currency transactions are translated into the company's functional currency, Jamaican dollars, at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised in profit or loss.

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

(c) Financial instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, amounts due from or to policyholders, brokers, agents, reinsurers, other receivables, balances with group companies 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 is discussed in Note 5.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value. Cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(e) Investments

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Investments (continued)

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

(f) Insurance contracts

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

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

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

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

(g) Insurance receivables and payables

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Reinsurance ceded

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

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

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

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

(i) Deferred policy acquisition costs

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

(j) Fixed assets and depreciation

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(j) Fixed assets and depreciation (continued)

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 year end. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Insurance reserves (continued)

(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 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.

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

(v) Unexpired risk reserve

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

(n) Other receivables and payables

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

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

(o) Income taxes

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

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

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

Jamaica International Insurance Company Limited

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2. Significant Accounting Policies (Continued)

(o) Income taxes (continued)

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

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

(p) Employee benefits

(i) Pension obligations

Defined contribution plan

The company participates in a defined contribution plan operated by its parent company, whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

Defined benefit plan

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

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

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

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

Jamaica International Insurance Company Limited

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2. Significant Accounting Policies (Continued)

(p) Employee benefits (continued)

- (ii) Other retirement obligations
The company participates in a number of other retirement schemes operated by GraceKennedy Limited. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to profit or loss over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.
- (iii) Leave accrual
Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.
- (iv) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to present value.
- (v) Incentive plans
The company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit after certain adjustments. The company recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.
- (vi) Equity compensation benefits
The company participates in an equity-settled, share-based compensation plan with its ultimate parent company, GraceKennedy Limited. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years.

Jamaica International Insurance Company Limited

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2. Significant Accounting Policies (Continued)

(q) Revenue and income recognition

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

Insurance contracts

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

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

Interest income

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

Dividend income

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

(r) Dividends

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

Jamaica International Insurance Company Limited

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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 for managing and monitoring risks, as follows:

(i) Investment and Loan Committee

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

(ii) Audit Committee

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

(iii) Insurance Risk Committee

The Board established an Insurance Risk Committee during the year to oversee the company's insurance risk arrangements. The Committee's mandate is to ensure that the company's insurance risk appetite is appropriate and adhered to and that key insurance risks are identified and managed.

(iv) Conduct Review Committee

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

Management has also established departments for managing and monitoring risks, as follows:

(i) Finance Department

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(ii) Risk and Reinsurance Department

This Department is charged with developing the company's insurance risk management framework and negotiating reinsurance (treaty and facultative) arrangements, including assessing the performance and credit worthiness of the reinsurers. They monitor the company's compliance with the insurance risk policies and procedures, by way of advisory activities, regular performance monitoring, exception reporting & audits conducted periodically.

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

(a) Insurance risk

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

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

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

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

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

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

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the statement of financial position date.

The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the statement of financial position date.

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

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

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

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

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

	2011		2010	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property –				
Fire and consequential loss	425,156	2,577	423,225	2,565
Boiler and machinery	193,253	3,623	192,375	3,607
Engineering	257,670	4,831	256,500	4,809
Burglary, money and goods in transit	10,736	5,368	10,688	5,344
Glass and other	4,295	2,147	4,275	2,138
Liability	244,787	12,884	243,675	12,825
Marine, aviation and transport	22,500	2,625	22,500	2,813
Motor	5,000	5,000	5,000	5,000
Pecuniary loss –				
Fidelity	10,736	5,368	10,688	5,344
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	19,325	9,663	19,238	9,619
Personal property	425,156	2,577	423,225	2,565

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Sensitivity Analysis of Actuarial Liabilities

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

Actuarial Assumptions

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

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

(ii) Provision for adverse deviation assumptions

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

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The table below illustrates how the company's estimate of the ultimate claims liability for accident years 2006 - 2010 has changed at successive year-end, up to 2011. 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.

		2007		2008		2009		2010		2011	
		and		and		and		and		and	
		2007	prior	2008	prior	2009	prior	2010	prior	2011	prior
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2007	Paid during year	582,914	809,923								
	UCAE, end of year	438,716	994,003								
	IBNR, end of year	37,746	67,335								
	Ratio: excess (deficiency)										
2008	Paid during year	248,085	400,380	624,150	1,024,530						
	UCAE, end of year	279,103	675,090	450,997	1,126,087						
	IBNR, end of year	11,195	21,884	35,203	57,087						
	Ratio: excess (deficiency)		(3.39%)								
2009	Paid during year	77,807	216,417	282,651	499,068	584,808	1,083,877				
	UCAE, end of year	189,307	447,434	298,876	746,310	519,811	1,266,120				
	IBNR, end of year	-	500	4,367	4,867	50,684	55,551				
	Ratio: excess (deficiency)	(8.13%)	(0.32%)	(20.5%)	(5.67%)						
2010	Paid during year	65,732	158,108	73,157	231,265	236,570	467,835	559,019	1,026,853		
	UCAE, end of year	146,245	327,184	238,919	566,103	307,036	873,139	509,260	1,382,399		
	IBNR, end of year	-	-	-	-	-	-	63,254	63,254		
	Ratio: excess (deficiency)	(12.89%)	(3.84%)	(22.32%)	(9.57%)	(4.71%)	(1.46%)				
2011	Paid during year	39,071	89,008	47,864	136,872	100,905	237,777	265,315	503,092	558,957	1,062,049
	UCAE, end of year	62,091	152,392	142,955	295,347	214,227	509,574	300,526	810,100	640,404	1,450,504
	IBNR, end of year	-	-	-	-	-	-	2,365	2,365	67,945	70,310
	Ratio: excess (deficiency)	(3.43%)	4.24%	(12.43%)	1.74%	3.29%	8.06%	0.75%	9.00%		

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3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

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

Retention limits represent the level of risk retained by the insurer. 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 reinsurance treaties for the company range between \$2,147,000 and \$12,884,000 (2010 - \$2,138,000 and \$12,825,000).

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

- (i) Property and allied perils 80%:20% (2010 – 80%:20%) Quota Share of premiums i.e. 80% ceded premiums and 20% retention.
- (ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US\$150,000 (2010 – 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\$21,000,000 (2010 – US\$18,500,000) for any one event.

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

	2011	2010
	\$'000	\$'000
Property	357,261	247,695
Motor	3,967	3,939
Marine	5,811	3,285
Liability	(5,326)	1,037
Pecuniary loss	13,559	3,442
Personal accident	3,658	206
	<u>378,930</u>	<u>259,604</u>

(c) Financial risk

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

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

(i) Credit risk

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

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

Credit review process

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

(a) Reinsurance

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

(b) Premium and other receivables

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

(c) Investments

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Exposure to credit risk

	2011 \$'000	2010 \$'000
Cash and short term investments	1,822,355	1,897,270
Investments	2,081,066	1,773,886
Due from agents, brokers & policyholders	465,154	506,081
Recoverable from reinsurers and coinsurers	406,062	423,734
Other receivables	16,726	3,536
Due from group companies	-	5,324
	<u>4,791,363</u>	<u>4,609,831</u>

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

Ageing analysis of amounts due from agents, brokers & policyholders past due but not impaired:

Amounts due from agents, brokers & policyholders that are less than two months old are not considered impaired. As at year end, amounts due from agents, brokers & policyholders of \$58,088,000 (2010 - \$154,572,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2011 \$'000	2010 \$'000
61 to 90 days	38,049	39,598
More than 90 days	<u>20,039</u>	<u>114,974</u>
	<u>58,088</u>	<u>154,572</u>

Amounts due from agents, brokers & policyholders of \$15,580,000 (2010 - \$18,221,000) were considered impaired and have been fully provided for at the year end. These receivables are all aged over 90 days. The movement in the provision is as follows:

	2011 \$'000	2010 \$'000
At beginning of year	18,221	4,021
Additional provision	15,283	14,200
Written off as uncollectible	<u>(17,924)</u>	<u>-</u>
At end of year	<u>15,580</u>	<u>18,221</u>

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Amounts due from agents, brokers & policyholders

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

Debt securities

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

	2011	2010
	\$'000	\$'000
Government of Jamaica	3,401,704	3,178,417
Corporate	101,853	-
Other	378,445	443,776
	<u>3,882,002</u>	<u>3,622,193</u>

(ii) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they become due. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

Liquidity risk management process

The company's liquidity management process, as carried out by management and monitored by the Investment and Loan Committee, includes:

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

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

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

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

Financial and insurance liabilities cash flows

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

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	Total \$'000
2011				
Bank overdraft	1,733	-	-	1,733
Due to reinsurers	181,151	-	87,721	268,872
Claims outstanding	-	-	1,909,325	1,909,325
Other payables	14,724	43,418	7,632	65,774
Due to group companies	1,584	-	-	1,584
	199,192	43,418	2,004,678	2,249,299
2010				
Bank overdraft	15,627	-	-	15,627
Due to reinsurers	-	78,886	139,049	217,935
Claims outstanding	-	-	1,846,316	1,846,316
Other payables	9,456	28,391	6,832	44,679
Due to group companies	71	-	-	71
	25,154	107,277	1,992,197	2,124,628

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

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

(iii) Market risk

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

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

Currency risk

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Concentrations of currency risk

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

	EC\$ J\$'000	US\$ J\$'000	Total J\$'000
2011			
Financial Assets			
Cash & short term investments	259	185,496	185,755
Investments	790	595,325	596,115
Due from agents, brokers & policyholders	4,803	46,474	51,277
Recoverable from reinsurers and coinsurers	157	282,922	283,079
Total financial assets	6,009	1,110,217	1,116,226
Financial Liabilities			
Due to reinsurers	-	(244,646)	(244,646)
Claims outstanding	(3,350)	(304,569)	(307,919)
Total financial liabilities	(3,350)	(549,215)	(552,565)
Net financial position	2,659	561,002	563,661
2010			
Financial Assets			
Cash & short term investments	128	197,376	197,504
Investments	790	584,788	585,578
Due from agents, brokers & policyholders	5,774	144,449	150,223
Recoverable from reinsurers and coinsurers	150	239,064	239,214
Total financial assets	6,842	1,165,677	1,172,519
Financial Liabilities			
Due to reinsurers	-	(195,106)	(195,106)
Claims outstanding	(7,566)	(273,607)	(281,173)
Total financial liabilities	(7,566)	(468,713)	(476,279)
Net financial position	(724)	696,964	696,240

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Foreign currency sensitivity

The 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 the US dollar and EC dollar exchange rates. The sensitivity analysis represents outstanding US\$ denominated and EC\$ denominated monetary items and adjusts their translation at the year-end for a 1% revaluation and a 1% devaluation (2010 – 5% revaluation/devaluation) of the Jamaican dollar against these currencies. The percentage change in the currency rate will impact each financial asset/liability included in the sensitivity analysis differently. Consequently, individual sensitivity analyses were performed. The effect on profit or loss shown below is the total of the individual sensitivities done for each of the assets/liabilities. There is no sensitivity on the company's other components of equity as the company does not enter into cash flow hedges.

	% Change in Currency Rate 2011	Effect on Profit before Taxation 2011 \$'000	% Change in Currency Rate 2010	Effect on Profit before Taxation 2010 \$'000
US\$ (J\$ Revaluation)	1%	(5,610)	5%	(34,848)
US\$ (J\$ Devaluation)	1%	5,610	5%	34,848
EC\$ (J\$ Revaluation)	1%	(27)	5%	36
EC\$ (J\$ Devaluation)	1%	27	5%	(36)

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk

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

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

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

The following tables summarise the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. There is no interest rate risk arising from the company's insurance assets and liabilities.

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
2011							
Financial Assets							
Cash & short term investments	1,674,192	147,761	-	-	-	402	1,822,355
Investments	-	636,152	122,682	819,370	502,862	28,207	2,109,273
Other receivables	-	-	-	-	-	30,075	30,075
Total financial assets	1,674,192	783,913	122,682	819,370	502,862	58,684	3,961,703
Financial Liabilities							
Other payables	-	-	-	-	-	(65,774)	(65,774)
Due to group companies	-	-	-	-	-	(1,584)	(1,584)
Bank overdraft	(1,733)	-	-	-	-	-	(1,733)
Total financial liabilities	(1,733)	-	-	-	-	(66,340)	(69,091)
Total interest repricing gap	1,672,459	783,913	122,682	819,370	502,862	(7,656)	3,893,630

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2010							
Financial Assets							
Cash & short term investments	1,897,270	-	-	-	-	-	1,897,270
Investments	65,366	342,363	19,824	776,487	569,846	25,270	1,799,166
Due from group companies	-	-	-	-	-	5,324	5,324
Other receivables	-	-	-	-	-	3,536	3,536
Total financial assets	1,962,637	342,363	19,824	776,487	569,846	34,130	3,705,287
Financial Liabilities							
Other payables	-	-	-	-	-	(44,679)	(44,679)
Due to group companies	-	-	-	-	-	(71)	(71)
Bank overdraft	(15,627)	-	-	-	-	-	(15,627)
Total financial liabilities	(15,627)	-	-	-	-	(44,750)	(60,377)
Total interest repricing gap	1,947,010	342,363	19,824	776,487	569,846	(10,620)	3,644,910

Interest rate sensitivity

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

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

Change in basis points	Effect on	Effect on	Change in basis points	Effect on	Effect on
	Profit before Taxation	Other Components of Equity		Profit before Taxation	Other Components of Equity
2011 JMD / USD	2011 \$'000	2011 \$'000	2010 JMD / USD	2010 \$'000	2010 \$'000
-100/-50	(3,050)	35,083	-100/-50	(260)	35,081
+100/+50	3,050	(30,890)	+200/+50	520	(54,156)

Price risk

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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4. Capital Management

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

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

Capital adequacy is managed and monitored by the company's management. It is calculated by the Compliance Officer and reviewed by executive management, the audit committee and the board of directors. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

Commencing in 2011, the primary measure used to assess capital adequacy is the Minimum Capital Test (MCT), which replaced the Minimum Asset Test (MAT). The FSC's stated rationale for the change to the MCT is based on its superiority over the MAT in that:

- (i) It relates capital required to the risks assumed unlike the MAT which assumes similar risk for all items within each class of statement of financial position items;
- (ii) It is consistent with the approaches used in the supervision of other areas of the financial sector.

The minimum standard stipulated by the Section 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) Regulations, 2011 is that a general insurance company shall have a minimum MCT percentage of 200% for the financial year end 2011. This information is required to be filed with the Financial Services Commission (FSC) on an annual basis. The MCT for the company for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Actual MCT ratio	252%	217%
Minimum Required MCT ratio	<u>200%</u>	<u>200%</u>

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

Jamaica International Insurance Company Limited

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5. Fair Values of Financial Instruments

(a) Valuation techniques and assumptions

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

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

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

(b) Fair value hierarchy

At year end, the company held financial instruments carried at fair value on the statement of financial position and used the following hierarchy for determining and disclosing the fair value of those financial instruments by valuation technique:

- Level 1 includes instruments measured at quoted prices in active markets for identical assets or liabilities.
- Level 2 includes instruments measured using inputs, other than quoted prices, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments which are measured using valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The company has no financial instruments classified in Level 3.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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5. Fair Values of Financial Instruments (Continued)

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 at year end:

	Level 1 \$'000	Level 2 \$'000	Total \$'000
2011			
Available-for-sale securities –			
Government of Jamaica securities	-	3,401,704	3,401,704
Corporate bonds and other securities	-	480,298	480,298
Equity securities	27,561	-	27,561
	<u>27,561</u>	<u>3,882,002</u>	<u>3,909,563</u>
2010			
Available-for-sale securities –			
Government of Jamaica securities	-	3,178,417	3,178,417
Corporate bonds and other securities	-	443,776	443,776
Equity securities	24,624	-	24,624
	<u>24,624</u>	<u>3,622,193</u>	<u>3,646,817</u>

6. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Liabilities arising from claims made under insurance contracts

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

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

Liabilities arising from claims made under insurance contracts (continued)

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

Fair value of financial assets determined using valuation techniques

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

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

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

Valuation of pension benefit obligation

Actuarial valuations are conducted to determine the cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation. These valuations involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in these estimates are contained in Note 16.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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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

	2011	2010
	\$'000	\$'000
Cash at bank and in hand	21,419	48,964
Short term investments (Note 9)	1,800,936	1,848,306
	<u>1,822,355</u>	<u>1,897,270</u>
Bank overdraft (Note 17)	(1,733)	(15,627)
	<u>1,820,622</u>	<u>1,881,643</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 \$8,677,000 (2010 – \$7,127,000).

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

	2011	2010
	%	%
Jamaican dollar denominated	6.25	7.49
United States dollar denominated	<u>3.15</u>	<u>3.64</u>

Jamaica International Insurance Company Limited

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9. Investments

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

	Years to Maturity				Total 2011 \$'000	Total 2010 \$'000
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years		
	\$'000	\$'000	\$'000	\$'000		
Debt securities, at fair value -						
Government of Jamaica	1,771,339	920,536	234,375	475,454	3,401,704	3,178,417
Corporate	101,853	-	-	-	101,853	-
Certificates of deposit	378,445	-	-	-	378,445	443,776
	<u>2,251,637</u>	<u>920,536</u>	<u>234,375</u>	<u>475,454</u>	<u>3,882,002</u>	<u>3,622,193</u>
Short term investments, at fair value (Note 8)					(1,800,936)	(1,848,306)
					<u>2,081,066</u>	<u>1,773,886</u>
Quoted equity securities, at fair value					27,561	24,624
Unquoted equity securities, at cost					646	646
					<u>2,109,273</u>	<u>1,799,156</u>

Investments include interest receivable of \$58,809,000 (2010 – \$55,724,000).

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

Included in investments are Government of Jamaica debt securities with a face value of \$50,000,000, which 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\$232,486; J\$20,025,235 (2010 – US\$232,254; J\$19,820,750) which have been pledged with the regulator in Turks and Caicos and other short term deposits which have been pledged with the regulator in the Commonwealth of Dominica of EC\$30,000; J\$790,000 (2010 – EC\$30,000; J\$790,000).

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10. Due from Agents, Brokers and Policyholders

	2011 \$'000	2010 \$'000
Insurance receivables –		
Agents and brokers	284,508	350,695
Policyholders	196,226	173,607
	<u>480,734</u>	<u>524,302</u>
Less: Provision for impairment	(15,580)	(18,221)
	<u>465,154</u>	<u>506,081</u>

11. Recoverable from Reinsurers and Coinsurers

	2011 \$'000	2010 \$'000
Claims recoverable from reinsurers and coinsurers	17,551	23,071
Reinsurers' portion of claims outstanding (Note 18)	388,511	400,663
Reinsurers' portion of unearned premiums (Note 18)	706,539	980,004
	<u>1,112,601</u>	<u>1,403,738</u>

12. Other Receivables

	2011 \$'000	2010 \$'000
Staff loans	852	1,923
Prepayments	13,349	12,327
Other	15,874	1,613
	<u>30,075</u>	<u>15,863</u>

13. Related Party Transactions and Balances

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

	2011 \$'000	2010 \$'000
Premiums receivable	<u>284</u>	<u>17</u>
Claims outstanding	<u>150</u>	<u>150</u>

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13. Related Party Transactions and Balances (Continued)

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

	2011 \$'000	2010 \$'000
Cash and short term investments –		
Fellow subsidiaries	125,223	111,417
Ultimate parent company	402	402
	<u>125,625</u>	<u>111,819</u>
Investments – Ultimate parent company	<u>101,853</u>	<u>-</u>
Due from agents, brokers and policyholders –		
Fellow subsidiaries	30,961	64,271
Ultimate parent company	1,480	1,097
	<u>32,441</u>	<u>65,368</u>
Due from/(to) group companies -		
Fellow subsidiaries	(283)	(71)
Ultimate parent company	(1,301)	5,324
	<u>(1,584)</u>	<u>5,253</u>
Other payables – Fellow subsidiary	<u>2,832</u>	<u>2,069</u>
Bank overdraft – Fellow subsidiary	1,733	15,627
Claims outstanding (gross) -		
Fellow subsidiaries	10,800	17,297
Ultimate parent company	43,108	1,434
	<u>53,908</u>	<u>18,731</u>

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

	2011 \$'000	2010 \$'000
Staff costs –		
Wages and salaries	33,840	38,144
Statutory contributions	3,160	3,539
	<u>36,000</u>	<u>41,683</u>
Directors' emoluments -		
Fees	2,866	1,848
Management remuneration (included in staff costs above)	14,012	17,145
	<u>16,878</u>	<u>18,993</u>
Gross premiums written	2,825	1,958
Claims expense	<u>-</u>	<u>-</u>

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13. Related Party Transactions and Balances (Continued)

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

	2011 \$'000	2010 \$'000
Gross premiums written –		
Fellow subsidiaries	283,570	196,356
Parent company	380	-
Ultimate parent company	109,021	126,236
	<u>392,971</u>	<u>322,592</u>
Reinsurance ceded – Fellow subsidiaries	<u>73,677</u>	<u>80,589</u>
Commission income – Fellow subsidiaries	<u>8,991</u>	<u>9,062</u>
Commission expense – Fellow subsidiaries	<u>100,560</u>	<u>105,220</u>
Claims expense (gross) –		
Fellow subsidiaries	(5,156)	7,784
Ultimate parent company	56,317	379
	<u>51,161</u>	<u>8,163</u>
Administration expenses –		
Parent company	14,457	6,167
Ultimate parent company	1,241	3,873
Fellow subsidiaries	6,012	6,394
	<u>21,710</u>	<u>16,434</u>
Other operating expenses –		
Allocation of central office expenses paid to parent company	<u>151,041</u>	<u>132,918</u>
Interest earned -		
Fellow subsidiaries	11,947	39,991
Ultimate parent company	5,125	-
	<u>17,072</u>	<u>39,991</u>
Rental income - Fellow subsidiaries	<u>4,134</u>	<u>4,134</u>
Royalty expense – Fellow subsidiary	<u>38,552</u>	<u>34,691</u>

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14. Fixed Assets

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Total \$'000
2011					
At Cost or Valuation -					
At 1 January 2011	320,000	26,170	128,430	22,984	497,584
Additions	1,302	249	9,191	21,132	31,874
Disposals	-	-	(1,137)	(9,223)	(10,437)
Transferred to intangible assets	-	-	(11,802)	-	(11,802)
At 31 December 2011	321,302	26,419	124,682	34,893	507,296
Depreciation -					
At 1 January 2011	-	1,927	58,141	16,646	76,714
Charge for the year	3,952	2,638	10,913	6,483	23,986
On disposals	-	-	(519)	(7,992)	(8,511)
Transferred to intangible assets	-	-	(7,518)	-	(7,518)
At 31 December 2011	3,952	4,565	61,017	15,137	84,671
Net Book Value -					
31 December 2011	317,350	21,854	63,665	19,756	422,625
2010					
At Cost or Valuation -					
At 1 January 2010	302,126	5,234	119,319	22,984	449,663
Additions	1,257	21,344	11,529	-	34,130
Disposals	-	(408)	(2,418)	-	(2,826)
Revaluation	16,617	-	-	-	16,617
At 31 December 2010	320,000	26,170	128,430	22,984	497,584
Depreciation -					
At 1 January 2010	-	1,411	47,000	12,286	60,697
Charge for the year	3,784	751	12,480	4,360	21,375
On disposals	-	(235)	(1,339)	-	(1,574)
Revaluation	(3,784)	-	-	-	(3,784)
At 31 December 2010	-	1,927	58,141	16,646	76,714
Net Book Value -					
31 December 2010	320,000	24,243	70,289	6,338	420,870

Land and buildings are carried at fair market value based on a valuation in 2010 by D.C. Tavares & Finson Company Limited, professional valuers. If land and buildings were stated on the historical cost basis, the cost would be \$91,756,000 (2010 – \$90,454,000) with accumulated depreciation of \$18,500,000 (2010 – \$16,918,000).

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15. Intangible Assets

	Dyoll Portfolio \$'000	Computer Software \$'000	Total \$'000
	2011		
At Cost -			
At 1 January 2011	589,088	-	589,088
Additions	-	35	35
Transferred from fixed assets	-	11,802	11,802
At 31 December 2011	589,088	11,837	600,925
Amortisation and impairment -			
At 1 January 2011	196,362	-	196,362
Transferred from fixed assets	-	7,518	7,518
Amortisation charge	39,272	2,616	41,888
At 31 December 2011	235,634	10,134	245,768
Net Book Value -			
31 December 2011	353,454	1,703	355,157
	2010		
At Cost -			
At 1 January 2010	589,088	-	589,088
Additions	-	-	-
At 31 December 2010	589,088	-	589,088
Amortisation and impairment -			
At 1 January 2010	157,089	-	157,089
Amortisation charge	39,273	-	39,273
At 31 December 2010	196,362	-	196,362
Net Book Value -			
31 December 2010	392,726	-	392,726

The company assumed the complete portfolio of Jamaican policies held by Dyoll Insurance Company Limited. The cost of the transaction, including directly attributable fees and expenses, was \$589,088,000. The intangible asset is being amortised over 15 years using the straight line method, commencing 1 January 2006.

The 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 a discount rate of 10%, calculating the present value of those future cash flows. Expected future cash flows are based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an estimated growth rate of 5%.

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16. Retirement Benefits

Pension benefits

In addition to a defined benefit pension scheme described below, the company participates in a defined contribution pension scheme, open to Jamaican based employees of the GraceKennedy Group, hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was \$3,144,000 (2010 - \$710,000).

The company participates in a defined benefit pension plan operated by parent company, GraceKennedy Limited, and administered by fellow subsidiary, First Global Financial Services Limited, in which eligible 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. The scheme was closed to new members as at 31 March 2010. The company's contribution for the year was \$767,000 (2010 - \$1,100,000).

Other retirement benefits

The company participates in a number of other schemes operated by GraceKennedy Limited, which provide retirement benefits. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built-up to cover the retirement obligations under these schemes.

	Pension benefits		Other retirement benefits	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Amounts recognised in the statement of financial position	3,900	34,754	(136,839)	(121,531)
Amounts recognised in profit or loss (Note 26)	(31,621)	(8,323)	(17,510)	(25,503)

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

	Pension benefits		Other retirement benefits	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Allocated fair value of plan assets	549,042	439,917	-	-
Present value of obligations	(678,827)	(620,152)	(161,257)	(157,427)
	(129,785)	(180,235)	(161,257)	(157,427)
Unrecognised actuarial losses	133,685	145,481	24,418	35,896
	3,900	34,754	(136,839)	(121,531)

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16. Retirement Benefits (Continued)

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

	Pension benefits		Other retirement benefits	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current service cost, net of employee contributions	(37,403)	(25,443)	(13,530)	(8,538)
Interest cost	(73,361)	(66,118)	(18,684)	(17,265)
Past service cost	-	-	16,688	-
Asset allocation adjustment	44,150	50,000	-	-
Expected return on plan assets	(8,579)	37,107	-	-
Actuarial gains/(losses) recognised	43,572	(3,869)	(1,984)	300
	<u>(31,621)</u>	<u>(8,323)</u>	<u>(17,510)</u>	<u>(25,503)</u>

The actual return on plan assets was a gain of \$62,386,000 (2010 – \$71,259,000).

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

	Pension benefits		Other retirement benefits	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
At beginning of year	(620,152)	(378,194)	(157,427)	(100,433)
Current service cost	(53,731)	(40,043)	(13,530)	(8,538)
Interest cost	(73,361)	(66,118)	(18,684)	(17,265)
Past service cost	-	-	16,688	-
Benefits paid	13,928	9,998	2,204	2,131
Actuarial gains/(losses)	54,489	(145,795)	9,492	(33,322)
At end of year	<u>(678,827)</u>	<u>(620,152)</u>	<u>(161,257)</u>	<u>(157,427)</u>

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

	Pension benefits	
	2011 \$'000	2010 \$'000
At beginning of year	439,917	312,956
Employer contributions	767	1,100
Employee contributions	16,328	14,600
Expected return on plan assets	44,150	37,107
Benefits paid	(13,928)	(9,998)
Asset allocation adjustment	43,572	50,000
Actuarial gains	18,236	34,152
At end of year	<u>549,042</u>	<u>439,917</u>

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16. Retirement Benefits (Continued)

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

	2011	2010
	%	%
Equity	18	16
Government securities	63	63
Other	19	21
	<u>100</u>	<u>100</u>

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

Expected employer contributions to the plan for the year ending 31 December 2012, amount to \$1,517,000.

The principal actuarial assumptions used were as follows:

	2011	2010
Discount rate	10.0%	11.0%
Long term inflation rate	6.0%	7.0%
Expected return on plan assets	10.0%	10.0%
Future salary increases	7.5%	8.5%
Future pension increases	6.0%	7.0%
Long term increase in health costs	<u>7.5%</u>	<u>10.0%</u>

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.

Assumptions regarding future mortality experience are set based on advice, published statistics and experience. At normal retirement age, 90% of males and females are assumed to be married. The age difference between husband and wife is assumed to average 3 years. Retirement mortality for active members and mortality for pensioners and deferred pensioners are based on the 1994 Group Annuity Mortality Tables.

A 1% increase/(decrease) in the assumed medical cost trend rate would result in an increase/(decrease) in the aggregate current service cost and interest cost of \$4,116,000/(\$3,000,000) and an increase/(decrease) in the defined benefit obligation of \$17,849,000/(\$13,897,000).

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16. Retirement Benefits (Continued)

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

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Allocated fair value of plan assets	549,042	439,917	312,956	245,402	251,311
Defined benefit obligation	(678,827)	(620,152)	(378,194)	(332,231)	(168,009)
Surplus/(Deficit)	(129,785)	(180,235)	(65,238)	(86,829)	83,302
Experience adjustments –					
Allocated fair value of plan assets	18,236	34,152	21,484	(37,969)	(1,039)
Defined benefit obligation	(96,764)	(32,395)	(41,017)	(18,429)	(4,260)

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

	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Defined benefit obligation	(161,257)	(157,427)	(100,433)	(75,413)	(77,403)
Experience adjustments	(8,085)	(8,935)	(2,873)	38	(4,473)

17. Bank Overdraft

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

18. Insurance Reserves

	2011 \$'000	2010 \$'000
Gross –		
Claims outstanding	1,909,325	1,846,316
Unearned premiums	1,797,286	1,899,533
Unearned commission	116,748	139,205
	<u>3,823,359</u>	<u>3,885,054</u>
Reinsurance ceded –		
Claims outstanding (Note 11)	388,511	400,663
Unearned premiums (Note 11)	706,539	980,004
	<u>1,095,050</u>	<u>1,380,667</u>
Net –		
Claims outstanding	1,520,814	1,445,653
Unearned premiums	1,090,746	919,529
Unearned commission	116,748	139,205
	<u>2,728,308</u>	<u>2,504,387</u>

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18. Insurance Reserves (Continued)

An actuarial valuation was performed by the company's appointed actuary, Josh Worsham, FCAS, MAAA of Mid Atlantic Actuarial, to value the policy and claims liabilities of the company as at 31 December 2011, 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 2011 the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2011 makes proper provision for the future payments under the company's policies and meets the requirements of the Insurance Act and other appropriate regulations of Jamaica; that a proper charge on account of these liabilities has been made in profit or loss; and that there is sufficient capital available to meet the solvency standards as established by the Financial Services Commission.

The movement in claims outstanding was as follows:

	2011	2010
	\$'000	\$'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	1,846,316	1,787,301
Reinsurance ceded	(400,663)	(465,630)
	<u>1,445,653</u>	<u>1,321,671</u>
Movement during the year –		
Claims incurred, including IBNR	1,137,210	1,150,835
Claims paid	(1,062,049)	(1,026,853)
	<u>75,161</u>	<u>123,982</u>
Net reserves for claims outstanding at end of year	1,520,814	1,445,653
Reinsurance ceded	388,511	400,663
Gross reserves for claims outstanding at end of year	<u>1,909,325</u>	<u>1,846,316</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 reporting date. The reserve for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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19. Other Payables

	2011 \$'000	2010 \$'000
Accruals	51,050	35,223
Other	14,724	9,456
	<u>65,774</u>	<u>44,679</u>

20. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 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:

	2011 \$'000	2010 \$'000
At beginning of year	72,982	116,010
Tax credited to profit or loss (Note 27)	(21,880)	(49,829)
Tax charged to other comprehensive income – revaluation of fixed assets	-	6,801
At end of year	<u>51,102</u>	<u>72,982</u>

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

Deferred tax liabilities	Accelerated depreciation	Revaluation of buildings	Retirement benefits	Interest receivable	Foreign exchange gains	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2010	6,619	60,938	13,992	57,653	12,148	151,350
Tax (credited)/charged to profit or loss	1,909	-	(2,407)	(36,702)	(5,181)	(42,381)
Tax charged to other comprehensive income	-	6,801	-	-	-	6,801
At 31 December 2010	8,528	67,739	11,585	20,951	6,967	115,770
Tax (credited)/charged to profit or loss	(3,227)	-	(10,285)	2,926	(5,925)	(16,511)
At 31 December 2011	<u>5,301</u>	<u>67,739</u>	<u>1,300</u>	<u>23,877</u>	<u>1,042</u>	<u>99,259</u>

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20. Deferred Income Taxes (Continued)

Deferred tax assets	Other	Retirement benefits	Total
	\$'000	\$'000	\$'000
At 1 January 2010	2,619	32,721	35,340
Tax credited to profit or loss	(342)	7,790	7,448
At 31 December 2010	2,277	40,511	42,788
Tax credited to profit or loss	267	5,102	5,369
At 31 December 2011	2,544	45,613	48,157

These balances include the following:

	2011 \$'000	2010 \$'000
Deferred tax liabilities to be settled after more than 12 months	74,340	87,852
Deferred tax assets to be recovered after more than 12 months	45,613	40,511

21. Share Capital

	2011 \$'000	2010 \$'000
Authorised, issued and fully paid, shares at no par value -		
862,064,000 Ordinary shares	862,064	862,064
3,130,000 Preference shares	203,012	203,012
	<u>1,065,076</u>	<u>1,065,076</u>

The preference shares are issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary, and carry no voting rights for the holder. The shares may not be redeemed at the request of the holder. The company has no obligation to redeem the shares and they are subordinate to the company's obligations to its policyholders and unsecured creditors. In any event, the shares cannot be redeemed within five years of the date of issue (January 2006) and any redemption shall be subject to the approval, in writing, of the FSC. Dividends for the preference shares are paid at the discretion of the Board of Directors but in any given financial year shall not exceed 8.125% of the total capital paid up on the preference shares, and are not cumulative.

22. Capital and Fair Value Reserves

	2011 \$'000	2010 \$'000
Realised gain on sale of investments	824	824
Unrealised gains on the revaluation of available-for-sale investments	168,740	147,421
Unrealised surplus on the revaluation of fixed assets, net of deferred tax	157,964	157,964
	<u>327,528</u>	<u>306,209</u>

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23. Share Options Reserve

The company's employees participated in an equity-settled, share-based compensation plan with its ultimate parent company, GraceKennedy Limited. Share options were granted to managers and permanent employees.

	2011 \$'000	2010 \$'000
At beginning of year	-	11,021
Value of expired options	-	(11,021)
Value of services received	3,504	-
At end of year	<u>3,504</u>	<u>-</u>

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

	Average exercise price 2011 \$	Options 2011 '000	Average exercise price 2010 \$	Options 2010 '000
At beginning of year	-	-	50.67	122
Granted	48.95	300	-	-
Forfeited	42.70	(88)	88.36	(122)
Exercised	31.91	(6)	-	-
At end of year	<u>43.74</u>	<u>206</u>	<u>-</u>	<u>-</u>

The options granted were at subscription prices of \$50.83 for managers and a range of \$39.30 to \$46.81 for permanent employees, being the weighted average price of the shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which the grant was approved, less a 25% discount for permanent employees only. The options are exercisable over a period of six years for managers and over three months for permanent employees, at which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date of the grant while one-third of the total of the grant to each manager will vest on each anniversary of the grant. The plan provided for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

Shares option were outstanding on 122,000 and 84,000 shares at the end of the year for managers and permanent employees, respectively. The options have exercise prices of \$61.20 and \$33.63 and expire in 2017 and 2012 for managers and permanent employees, respectively.

The fair value of options granted determined using the Black-Scholes valuation model was \$4,984,000, of which \$3,504,000 was expensed during the year. The significant inputs into the model were the weighted average share prices of \$51.00, \$55.65 and \$61.20 at the grant dates, exercise prices of \$50.83, \$41.67 and \$61.20, standard deviation of expected share price returns of 33.2%, option life of six years and three months and annual risk-free interest rates of 7.48%, 6.51% and 6.28%. The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the term of the options.

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24. Other Income

	2011	2010
	\$'000	\$'000
Interest earned – available for sale securities	300,648	351,051
Loss on disposal of fixed assets	2,784	(390)
Dividend income	2,636	1,116
Net foreign exchange losses	(2,996)	(14,954)
Miscellaneous income	22,214	13,737
Fronting fees	(18,585)	52,378
Rental income	5,014	5,065
	<u>311,715</u>	<u>408,003</u>

25. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2011	2010
	\$'000	\$'000
Advertising and public relations	38,468	28,422
Allocation of central office expenses paid to parent company	151,041	132,918
Amortisation of intangible assets	41,888	39,273
Auditor's remuneration	4,513	5,393
Bad debt expense	15,241	23,747
Bank charges	11,846	8,472
Data processing	51,448	41,438
Depreciation	23,986	21,375
Directors' fees	2,866	1,848
Occupancy - rent, utilities, insurance, security	49,660	42,309
Office expenses	32,227	31,734
Professional fees	7,383	13,035
Registration fees and stamp duty	18,943	17,229
Repairs and maintenance	7,372	8,874
Royalty expense	38,570	34,691
Staff costs (Note 26)	413,876	362,377
Underwriting expenses	25,648	21,840
	<u>934,976</u>	<u>834,976</u>

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26. Staff Costs

	2011 \$'000	2010 \$'000
Wages and salaries	279,786	264,445
Statutory contributions	26,480	23,035
Pension – defined contribution (Note 16)	3,144	710
Pension – defined benefit (Note 16)	31,621	8,323
Other retirement benefits (Note 16)	17,510	25,503
Other	55,335	40,361
	<u>413,876</u>	<u>362,377</u>

The number of persons employed full-time by the company at year end was 140 (2010 –128).

27. Taxation

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

	2011 \$'000	2010 \$'000
Current taxation -		
Charge for the year	85,335	93,061
Prior year adjustment	(759)	-
Deferred taxation (Note 20)	<u>(21,880)</u>	<u>(49,829)</u>
	<u>62,696</u>	<u>43,232</u>

The tax on the company's profit differs from the theoretical amount that would arise using the tax rate of 33% as follows:

	2011 \$'000	2010 \$'000
Profit before taxation	<u>203,782</u>	<u>120,978</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	67,927	40,326
Adjusted for the effects of –		
Share option expense	1,168	-
Tax-free interest income	(6,608)	(6,782)
Tax-free dividend income	(879)	(372)
Excess of depreciation over capital allowances	(152)	2,821
Dividend paid on preference shares	(7,229)	(7,095)
Amortisation of intangible assets	13,091	13,091
Adjustment to prior year current tax	(759)	-
Adjustment to prior year deferred tax	-	3,230
Other charges and credits, net	3,863	(1,987)
	<u>62,696</u>	<u>43,232</u>

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27. Taxation (Continued)

Current year adjustments for tax purposes are offset by deferred tax provisions (Note 20) as follows:

	2011	2010
	\$'000	\$'000
Post retirement benefit assets and obligations	15,387	10,193
Unrealised foreign exchange gains	5,925	5,181
Interest receivable	2,926	36,702
Other	(2,358)	(2,247)
	<u>21,880</u>	<u>49,829</u>

28. Contingent Liabilities

The company is involved in certain legal proceedings incidental to the normal conduct of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material effect on the company.