
***Jamaica
International
Insurance Company
Limited***

**Financial Statements
31 December 2013**



Jamaica International Insurance Company Limited

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31 December 2013

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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, 2013 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:	2,645,857	2,645,857
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	2,645,857	2,645,857
Ceded unpaid claims and adjustment expenses:	212,938	212,938
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	2,432,919	2,432,919

Policy Liabilities (J\$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		1,137,175
Net policy liabilities in connection with unearned premiums:		1,075,597
Gross unearned premiums:	2,032,649	
Net unearned premiums:	1,180,438	
Premium deficiency:	0	
Other net liabilities:	0	

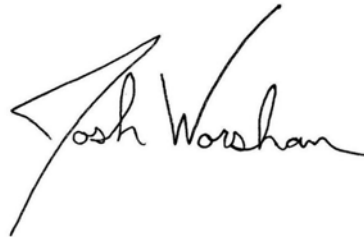


In my opinion:

- (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 31, 2014

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 66, which comprise the statement of financial position as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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 about 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 of financial statements that give a true and fair view 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 financial statements give a true and fair view of the financial position of Jamaica International Insurance Company Limited as at 31 December 2013, and of its financial performance and 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 Jamaican Companies 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
31 March 2014
Kingston, Jamaica

Jamaica International Insurance Company Limited

Statement of Financial Position

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	Restated 2012 \$'000	Restated 2011 \$'000
Assets				
Cash and short term investments	8	701,761	1,159,568	1,822,355
Investments	9	4,211,188	3,222,175	2,109,273
Due from agents, brokers and policyholders	10	497,867	528,118	465,154
Recoverable from reinsurers and coinsurers	11	1,080,933	1,244,245	1,112,601
Deferred policy acquisition costs		159,506	162,482	150,369
Other receivables	12	17,196	13,967	30,075
Due from group companies	13	852	2,396	-
Taxation recoverable	27	159,023	84,345	65,570
Fixed assets	14	405,459	492,354	422,625
Intangible assets	15	277,783	320,300	355,157
Deferred tax assets	20	-	13,972	1,599
		<u>7,511,568</u>	<u>7,243,922</u>	<u>6,534,778</u>

Jamaica International Insurance Company Limited


Statement of Financial Position (Continued)

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

			Restated	Restated
	Note	2013 \$'000	2012 \$'000	2011 \$'000
Liabilities and Shareholders' Equity				
Liabilities				
Bank overdraft	17	2,627	10,563	1,733
Due to reinsurers		300,800	380,837	268,872
Insurance reserves	18	4,842,458	4,382,104	3,823,359
Other payables	19	125,637	127,992	65,774
Due to group companies	13	1,561	-	1,584
Deferred tax liabilities	20	54,075	-	-
Retirement benefit obligations	16	172,053	391,130	291,042
		<u>5,499,211</u>	<u>5,292,626</u>	<u>4,452,364</u>
Shareholders' Equity				
Share capital	21	1,065,076	1,065,076	1,065,076
Capital and fair value reserves	22	215,880	299,850	327,528
Share options reserve	23	4,222	4,011	3,504
Retained earnings		<u>727,179</u>	<u>582,359</u>	<u>686,306</u>
		<u>2,012,357</u>	<u>1,951,296</u>	<u>2,082,414</u>
		<u>7,511,568</u>	<u>7,243,922</u>	<u>6,534,778</u>

Approved for issue by the Board of Directors on 31 March 2014 and signed on its behalf by:



Gina Phillips Black Chairman



Grace Burnett Managing Director

Jamaica International Insurance Company Limited

Statement of Comprehensive Income

Year ended 31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Gross Premiums Written		4,317,924	4,180,601
Reinsurance ceded		(1,916,852)	(1,842,321)
Net premiums written		2,401,072	2,338,280
Change in unearned premiums, net		641	(90,334)
Net Premiums Earned		2,401,713	2,247,946
Commission income		338,358	308,443
Commission expense		(374,360)	(366,776)
Claims expense	18	(1,885,747)	(1,341,697)
Underwriting expenses		(23,298)	(25,251)
Administration expenses		(813,430)	(813,862)
Underwriting (Loss)/Profit		(356,764)	8,803
Other income	24	542,472	410,779
Other operating expenses		(168,433)	(163,008)
Profit before Taxation		17,275	256,574
Taxation	27	54	(75,755)
Profit for the Year		17,329	180,819
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss			
Fair value losses on available-for-sale financial assets		(92,803)	(71,403)
Items that will not be reclassified to profit and loss			
Gains on revaluation of land and buildings, net of taxes		8,833	43,725
Re-measurements of post-employment benefit obligations		153,868	(61,488)
Other comprehensive income, net of taxes		69,898	(89,166)
Total Comprehensive Income		87,227	91,653

Jamaica International Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2013

(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 2012, as restated (Note 29)	1,065,076	327,528	3,504	686,306	2,082,414
Profit for the year, as restated (Note 29)	-	-	-	180,819	180,819
Other comprehensive income:					
Gains on revaluation of land and buildings, net of taxes, net of taxes	-	43,725	-	-	43,725
Fair value losses on available-for-sale financial assets	-	(71,403)	-	-	(71,403)
Re-measurements of post-employment benefit obligations	-	-	-	(61,488)	(61,488)
	-	(27,678)	-	(61,488)	(89,166)
Total comprehensive income, as restated (Note 29)	-	(27,678)	-	119,331	91,653
Transactions with owners:					
Dividends on ordinary shares	-	-	-	(200,000)	(200,000)
Dividends on preference shares	-	-	-	(23,278)	(23,278)
Employee share option scheme:					
Value of services received (Note 23)	-	-	507	-	507
Balance at 31 December 2012, as restated (Note 29)	1,065,076	299,850	4,011	582,359	1,951,296
Profit for the year	-	-	-	17,329	17,329
Other comprehensive income:					
Gains on revaluation of land and buildings, net of taxes, net of taxes	-	8,833	-	-	8,833
Fair value losses on available-for-sale financial assets	-	(92,803)	-	-	(92,803)
Remeasurements of post-employment benefit obligations	-	-	-	153,868	153,868
	-	(83,970)	-	153,868	69,898
Total comprehensive income	-	(83,970)	-	171,197	87,227
Transactions with owners:					
Dividends on ordinary shares	-	-	-	-	-
Dividends on preference shares	-	-	-	(26,377)	(26,377)
Employee share option scheme:					
Value of services received (Note 23)	-	-	211	-	211
Balance at 31 December 2013	1,065,076	215,880	4,222	727,179	2,012,357

Jamaica International Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2013 \$'000	2012 \$'000
Cash Flows from Operating Activities			
Premiums received		4,348,175	4,117,637
Reinsurance paid		(1,996,889)	(1,730,356)
Commissions received		350,453	343,552
Commissions paid		(371,387)	(378,889)
Claims paid	18	(1,276,867)	(1,038,472)
Rent received		5,995	5,014
Underwriting, administration and other operating expenditure paid		(923,894)	(864,082)
Other receipts, net		40,838	44,211
Taxation paid		<u>(74,675)</u>	<u>(88,056)</u>
Cash provided by operating activities		<u>101,749</u>	<u>410,559</u>
Cash Flows from Investing Activities			
Interest received		300,503	294,512
Investments, net		(902,423)	(1,116,277)
Additions to fixed assets	14	(28,292)	(55,378)
Additions to intangible assets	15	(191)	(4,529)
Proceeds on disposal of fixed assets		<u>95,110</u>	<u>12,149</u>
Cash used in investing activities		<u>(535,293)</u>	<u>(869,523)</u>
Cash Flows from Financing Activities			
Preference dividends paid		(26,377)	(23,278)
Ordinary dividends paid		<u>-</u>	<u>(200,000)</u>
Cash used in financing activities		<u>(26,377)</u>	<u>(223,278)</u>
		(459,921)	(682,242)
Foreign exchange gains on cash and cash equivalents		<u>10,050</u>	<u>10,625</u>
Decrease in cash and cash equivalents		(449,871)	(671,617)
Cash and cash equivalents at beginning of year		<u>1,149,005</u>	<u>1,820,622</u>
Cash and Cash Equivalents at End of Year	8	<u><u>699,134</u></u>	<u><u>1,149,005</u></u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(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 immediate parent company is 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.

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 company has implemented the amendment and has adjusted the statement of comprehensive income for the current and prior years.

IAS 19 (Amendment), '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. The company has adopted the revised standard in current year and has detailed the impact of adoption in Note 29 of the financial statements.#

2. Significant Accounting Policies (Continued)

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

(a) **Basis of preparation (continued)**

New and amended standards and interpretations effective in the current year (continued)

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 adopted IFRS 13 effective 1 January 2013 which resulted in expanded disclosures in the financial statements.

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.

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 2013

(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 and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are recognised in other comprehensive income.

(c) Financial instruments

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

(d) Cash and cash equivalents

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 other comprehensive income are included in profit or loss as gains and losses from investment securities in 'other income'.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Investments (continued)

The company assesses at each reporting date 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 on in-force contracts that relates to unexpired period of risk carried at the statement of financial position date is reported as the unearned premium liability. Premiums are shown before commission expense.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to 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 from agents, brokers and insurance contract holders and amounts due to the company's coinsurers and reinsurers.

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 2013

(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 liability for such losses. However, in an effort to reduce the risk of non-payment, the company requires all of its Treaty and Overseas Facultative reinsurers to have an A.M. Best or equivalent rating of A or better. The company also monitors the financial strength of its local facultative reinsurers.

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 2013

(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 that will write off the carrying value of the assets over the period of their expected useful lives. Land is not depreciated. The expected useful lives of the other fixed assets are as follows:

Freehold building	60 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. The expected useful life of the intangible assets are as follows:

Policy contracts	15 years
Computer software	4 years

(l) Impairment of non financial 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.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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 period of risk reserve have been independently actuarially determined for the current year. The remaining reserves are also reviewed by the actuary in determining the overall adequacy of the provision for the company's insurance liabilities.

(i) Unearned premium reserve

This reserve represents that proportion of premiums written in respect of risks to be borne subsequent to the year end, under contracts entered into on or before the reporting date, and is computed by applying the 365th method to gross written premiums.

(ii) Unearned commission

The unearned commission represents the actual commission income on premium ceded on proportional reinsurance contracts relating to the unexpired period of risk carried. The income is deferred as unearned commission reserves, and amortised over the life of the period in which the commissions are expected to be earned. These reserves are calculated by applying the 365th method to gross commissions.

(iii) Claims outstanding

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

(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 period of risk reserve

The provision for unexpired period of 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 reporting 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 statement of comprehensive income.

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(o) Income taxes

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

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

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

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

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

(p) Employee benefits

(i) Pension obligations

The company participates in a defined contribution plan whereby it pays contribution 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 also 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 costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of Government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(p) Employee benefits (continued)

(ii) Other post-employment obligations

The company participates in a number of other post-employment schemes operated by GraceKennedy Limited. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. 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 weighted average price of the parent company's shares on the Jamaica Stock Exchange for the previous ten days and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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 (See Note 2(f)). The portion of premiums written in the current year, which relates to coverage in subsequent years are deferred as unearned premiums (See 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 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) Dividend distribution

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management

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

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

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

(i) Investment and Loan Committee

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

(ii) Audit Committee

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

(iii) Insurance Risk Committee

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

(iv) Conduct Review Committee

The Conduct Review Committee is responsible for the monitoring of related party transactions and ensuring that these are 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 managing the liquidity risk of the company.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(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.

The disclosures provided in this note are based on the company's investment portfolio as at 31 December 2013.

(a) Insurance risk

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

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

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

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

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

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

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

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

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

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

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

	2013		2012	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property –				
Fire and consequential loss	524,933	3,181	440,451	2,669
Boiler and machinery	238,606	4,474	200,205	3,754
Engineering	318,141	5,965	266,940	5,005
Burglary, money and goods in transit	13,256	6,628	11,123	5,561
Glass	5,302	2,651	4,295	2,147
Other	5,302	2,651	4,449	2,225
Liability	318,141	31,814	266,940	17,796
Marine, aviation and transport	26,512	5,302	22,500	1,125
Motor	10,000	7,500	7,500	7,500
Pecuniary loss –				
Fidelity	13,256	6,628	11,123	5,368
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	23,861	11,930	20,000	10,000
Personal property	524,933	3,181	440,451	2,669

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(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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Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The table below illustrates how the company's estimate of the ultimate claims liability for accident years 2009 - 2012 has changed at successive year-ends, up to 2013. 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.

		2009		2010		2011		2012		2013	
		And		and		and		and		and	
		2009	Prior	2010	prior	2011	prior	2012	prior	2013	prior
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2009	Paid during year	584,808	1,083,876								
	UCAE, end of year	519,811	1,266,121								
	IBNR, end of year	50,684	55,351								
	Ratio: excess (deficiency)										
2010	Paid during year	236,570	467,835	559,019	1,026,854						
	UCAE, end of year	307,036	873,139	509,260	1,382,399						
	IBNR, end of year	-	-	63,254	63,254						
	Ratio: excess (deficiency)		(1.48%)								
2011	Paid during year	100,905	237,777	265,315	503,092	558,956	1,062,049				
	UCAE, end of year	214,227	509,574	300,526	810,100	640,405	1,450,505				
	IBNR, end of year	-	-	2,365	2,365	67,945	70,310				
	Ratio: excess (deficiency)		8.04%		9.00%						
2012	Paid during year	50,693	134,513	77,639	212,152	302,781	514,933	523,539	1,038,472		
	UCAE, end of year	161,614	408,821	257,595	666,416	428,924	1,095,340	645,918	1,741,257		
	IBNR, end of year	-	-	-	-	4,023	4,023	78,759	82,782		
	Ratio: excess (deficiency)		5.49%		4.43%		(6.15%)				
2013	Paid during year	37,614	129,598	57,095	186,693	148,236	334,929	338,425	673,354	603,513	1,276,867
	UCAE, end of year	127,451	433,044	249,243	682,287	414,066	1,096,353	477,954	1,574,307	768,396	2,342,703
	IBNR, end of year	-	-	-	-	-	-	10,023	10,023	80,193	90,216
	Ratio: excess (deficiency)	(3.03%)	(6.15%)	(13.41%)	(9.59%)	(22.13%)	(27.97%)	(14.04%)	(23.77%)		

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

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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 utilizes 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 summarized below:

(a) The retention limit or maximum exposure on insurance policies for all reinsurance treaties for the company range between \$2,156,000 and \$31,814,000 (2012 - \$2,147,000 and \$17,796,000).

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

- (i) Property and allied perils 80%:20% (2012 – 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\$300,000 (2012 – US\$112,500) for any one loss or event.
- (iii) Catastrophe excess of loss treaty which covers losses in various layers, the maximum of which is US\$22,000,000 (2012 – US\$22,000,000) for any one event.

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

	2013	2012
	\$'000	\$'000
Property	34,181	251,251
Motor	3,874	5,985
Marine	(5,298)	36,958
Liability	35,800	11,193
Pecuniary loss	(7,835)	2,407
Personal accident	(876)	(262)
	<u>59,846</u>	<u>307,532</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.

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)

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

(a) 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.

(b) 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.

(c) Reinsurance

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

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Exposure to credit risk

	2013	2012
	\$'000	\$'000
Cash and short term investments	701,761	1,159,568
Investments	4,211,188	3,208,755
Due from agents, brokers & policyholders	497,867	528,118
Recoverable from reinsurers and coinsurers	228,722	468,290
Other receivables	14,148	8,408
Due from group companies	852	2,396
	<u>5,654,538</u>	<u>5,375,535</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 three months old are not considered impaired. As at year end, amounts due from agents, brokers & policyholders of \$90,917,000 (2012 - \$70,770,000) 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:

	2013	2012
	\$'000	\$'000
61 to 90 days	34,678	26,967
More than 90 days	<u>56,239</u>	<u>43,803</u>
	<u>90,917</u>	<u>70,770</u>

There was no provision for doubtful accounts as at year end 31 December 2013 and 31 December 2012.

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)

Amounts due from agents, brokers & policyholders

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

Debt securities

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

	2013	2012
	\$'000	\$'000
Government of Jamaica	4,192,866	3,849,950
Corporate	160,743	150,781
Certificates of deposit with various financial institutions	470,330	303,742
	<u>4,823,939</u>	<u>4,304,473</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) Optimising cash returns on investment;
- (iv) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and
- (v) Managing the concentration and profile of debt maturities.

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

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

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

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

Financial and insurance liabilities cash flows

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

	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	Total \$'000
2013				
Bank overdraft	2,627	-	-	2,627
Due to reinsurers	137,373	28,638	134,789	300,800
Claims outstanding	-	-	2,645,857	2,645,857
Other payables	45,944	-	58,781	104,725
Due to group companies	1,561	-	-	1,561
	<u>187,505</u>	<u>28,638</u>	<u>2,839,427</u>	<u>3,055,570</u>
2012				
Bank overdraft	10,563	-	-	10,563
Due to reinsurers	211,929	16,244	156,073	384,246
Claims outstanding	-	-	2,273,212	2,273,212
Other payables	20,084	-	13,843	33,927
	<u>242,576</u>	<u>16,244</u>	<u>2,443,128</u>	<u>2,701,948</u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(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 ultimate 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
2013			
Financial Assets			
Cash & short term investments	113	69,389	69,502
Investments	37,582	804,502	842,084
Due from agents, brokers & policyholders	9,708	75,385	85,093
Recoverable from reinsurers and coinsurers	9,145	579,129	588,274
Deferred policy acquisition costs	2,649	55,422	58,071
Total financial assets	59,197	1,583,827	1,643,024
Financial Liabilities			
Due to reinsurers	(5,123)	(101,069)	(106,192)
Insurance reserves	(29,661)	(722,615)	(752,276)
Total financial liabilities	(34,784)	(823,684)	(858,468)
Net financial position	24,413	760,143	784,556
2012			
Financial Assets			
Cash & short term investments	673	171,022	171,695
Investments	790	611,766	612,556
Due from agents, brokers & policyholders	5,915	72,277	78,192
Recoverable from reinsurers and coinsurers	4,581	323,228	327,809
Deferred policy acquisition costs	1,685	8,974	10,659
Total financial assets	13,644	1,187,267	1,200,911
Financial Liabilities			
Due to reinsurers	(2,949)	(125,986)	(128,935)
Insurance reserves	(18,349)	(367,967)	(386,316)
Total financial liabilities	(21,298)	(493,953)	(515,251)
Net financial position	(7,654)	693,314	685,659

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 exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rates 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 15% devaluation (2012 – 1% revaluation and 10% 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 2013	Effect on Profit before Taxation 2013 \$'000	% Change in Currency Rate 2012	Effect on Profit before Taxation 2012 \$'000
US\$ (J\$ Revaluation)	1%	(7,601)	1%	(6,933)
US\$ (J\$ Devaluation)	15%	114,021	10%	69,331
EC\$ (J\$ Revaluation)	1%	(244)	1%	77
EC\$ (J\$ Devaluation)	15%	3,662	10%	(765)

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 Investment and Loan policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets through the adherence to a prescribed maturity profile.

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

	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
2013							
Financial Assets							
Cash & short term	486,007	215,754	-	-	-	-	701,761
Investments	127,388	432,133	1,177,35	1,461,57	960,462	52,276	4,211,188
Due from group	-	-	-	-	-	852	852
Other receivables	-	-	-	-	-	14,148	14,148
Total financial assets	613,395	647,887	1,177,35	1,461,57	960,462	67,276	4,927,949
Financial Liabilities							
Other payables	-	-	-	-	-	(125,637)	(125,637)
Due to group companies	-	-	-	-	-	(1,561)	(1,561)
Bank overdraft	(2,627)	-	-	-	-	-	(2,627)
Total financial liabilities	(2,627)	-	-	-	-	(127,198)	(129,825)
Total interest repricing	610,768	647,887	1,177,35	1,461,57	960,462	(59,922)	4,798,124

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 \$'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
2012							
Financial Assets							
Cash & short term	614,533	545,035	-	-	-	-	1,159,568
Investments	-	911,850	438,962	1,076,649	781,294	13,420	3,222,175
Due from group	-	-	-	-	-	2,396	2,396
Other receivables	-	-	-	-	-	8,408	8,408
Total financial assets	614,533	1,456,885	438,962	1,076,649	781,294	24,224	4,392,547
Financial Liabilities							
Other payables	-	-	-	-	-	(33,927)	(33,927)
Bank overdraft	(10,563)	-	-	-	-	-	(10,563)
Total financial liabilities	(10,563)	-	-	-	-	(33,927)	(44,490)
Total interest repricing	603,970	1,456,885	438,962	1,076,649	781,294	(9,703)	4,348,057

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. 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 2013 JMD / USD	Effect on Profit before Taxation 2013 \$'000	Effect on Other Components of Equity 2013 \$'000	Change in basis points 2012 JMD / USD	Effect on Profit before Taxation 2012 \$'000	Effect on Other Components of Equity 2012 \$'000
-100/-50	(10,496)	23,554	-100/-50	(10,565)	19,362
+250/+200	26,240	(56,201)	+400/+250	42,258	(107,593)

Jamaica International Insurance Company Limited

Notes to the Financial Statements

31 December 2013

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Price risk

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

4. Capital Management

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

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

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

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT). The minimum standard stipulated by the Regulation 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) Regulations, 2012 is that a general insurance company shall have a minimum MCT percentage of 250% for the financial year end 2013. This information is required to be included in the company's annual returns filed with the Financial Services Commission (FSC). The MCT percentage for the company for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
Actual MCT percentage	257%	242%
Minimum Required MCT percentage	<u>250%</u>	<u>225%</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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31 December 2013

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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).

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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5. Fair Values of Financial Instruments (Continued)

The following table provides an analysis of financial instruments held as at 31 December that, subsequent to initial recognition are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair values are observable according to the Levels mentioned above.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2013				
Available-for-sale securities:				
Quoted equities	51,630	-	-	51,630
Government of Jamaica securities	-	4,192,866	-	4,192,866
Corporate bonds	-	-	160,743	160,743
Other debt securities	-	470,330	646	470,976
	<u>51,630</u>	<u>4,663,196</u>	<u>161,389</u>	<u>4,876,215</u>
2012				
Available-for-sale securities:				
Quoted equities	12,774	-	-	12,774
Government of Jamaica securities	-	3,849,950	-	3,849,950
Corporate bonds	-	-	150,781	150,781
Other debt securities	-	303,742	646	304,388
	<u>12,774</u>	<u>4,153,692</u>	<u>151,427</u>	<u>4,317,893</u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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6. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Liabilities arising from claims made under insurance contracts

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

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

Fair value of financial assets determined using valuation techniques

As described in Note 5, where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash 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.

Jamaica International Insurance Company Limited

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

Valuation of pension and other post-employment benefit obligation

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

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

	2013	2012
	\$'000	\$'000
Cash at bank and in hand	36,734	63,850
Short term investments (Note 9)	665,027	1,095,718
	<u>701,761</u>	<u>1,159,568</u>
Bank overdraft (Note 17)	(2,627)	(10,563)
	<u><u>699,134</u></u>	<u><u>1,149,005</u></u>

Short term investments are debt instruments with an original maturity of up to 90 days, which are classified as cash and cash equivalents. Short term investments include interest receivable of \$2,959,000 (2012 – \$6,501,000).

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

	2013	2012
	%	%
Jamaican dollar denominated	7.30	6.28
United States dollar denominated	<u><u>2.88</u></u>	<u><u>3.58</u></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 2013 \$'000	Total 2012 \$'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	1,820,889	1,411,515	474,247	486,215	4,192,866	3,849,950
Corporate	110,685	50,058	-	-	160,743	150,781
Certificates of deposit	470,330	-	-	-	470,330	303,742
	<u>2,401,904</u>	<u>1,461,573</u>	<u>474,247</u>	<u>486,215</u>	<u>4,823,939</u>	<u>4,304,473</u>
Short term investments, at fair value (Note 8)					(665,027)	(1,095,718)
					<u>4,158,912</u>	<u>3,208,755</u>
Quoted equity securities, at fair value					51,630	12,774
Unquoted equity securities, at cost					646	646
					<u>4,211,188</u>	<u>3,222,175</u>

Investments include interest receivable of \$52,725,000 (2012 – \$74,174,000).

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 Regulation 8(1) (b) of the Insurance Regulations, 2001. Also included are Certificates of Deposits valued at US\$233,327; J\$24,759,000 (2012 – US\$232,906; J\$21,462,000) 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\$1,030,000; J\$37,582,000 (2012 – EC\$30,000; J\$790,000).

Jamaica International Insurance Company Limited

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9. Investment Securities (Continued)

National Debt Exchange

In February 2013, the company participated in the National Debt Exchange (NDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments with lower coupon interest rates.

The key features of the NDX are as follows:

- (a) Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the "Old Notes") were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the "New Notes"). Participation in the NDX was voluntary.
- (b) The New Notes offered have a variety of payment terms including, but not limited to, fixed and variable rates in J\$, CPI-indexed in J\$, CPI-indexed in J\$ and fixed rates in USD.
- (c) Eligible investors had the option to choose New Notes based on the type and maturity of the Old Notes which were offered for exchange based on certain election options. The election options only allowed investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- (d) Introduction of new Fixed Rate Accreting Notes ("FRANs") which were issued with J\$80 of principal value for every J\$100 of principal value of Old Notes, whereby such principal will accrete to J\$100 of principal value by the maturity date in 2028. The company elected not to receive any FRANs.
- (e) Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 22 February 2013 (the Settlement Date).

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9. Investment Securities (Continued)

National Debt Exchange (continued)

The NDX is expected to have some impact on the expected future cash flows from the company's investment portfolio. The transaction did not materially affect the financial position of the company. The table below summarises the impact on coupon rates and maturities of the instruments that were exchanged.

	<u>Pre NDX</u>	<u>Post NDX</u>
Jamaican dollar denominated instruments:		
Total face value exchanged: J\$2,015,000,000 of benchmark investment notes exchanged for J\$2,015,000,000 in initial principal value		
Weighted average coupon rate (%)	9.76	6.33
Weighted average tenor to maturity (years)	<u>2.85</u>	<u>6.33</u>
US dollar denominated instruments:		
Total face value exchanged: US\$1,000,000 of benchmark investment notes exchanged for US\$1,000,000 in initial principal value		
Weighted average coupon rate (%)	7.25	5.25
Weighted average tenor to maturity (years)	<u>3.01</u>	<u>7.05</u>
Loss on disposal of Old Notes	<u>-</u>	<u>\$10,642,000</u>

General accounting treatment

The Institute of Chartered Accountants of Jamaica (ICAJ) issued guidance on 15 February 2013 regarding the accounting treatment under IFRS of the NDX. As noted in the ICAJ guidance, in accordance with IAS 39, Financial Instruments Recognition and Measurement and IAS 1, Presentation of Financial Statements, the NDX transaction is treated as a disposal of Old Notes and an acquisition of New Notes. Generally, any difference between the carrying value of Old Notes and the fair value of New Notes was recognised in the income statement as a gain/loss.

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10. Due from Agents, Brokers and Policyholders

	2013 \$'000	2012 \$'000
Insurance receivables –		
Agents and brokers	326,192	323,288
Policyholders	171,675	204,830
	<u>497,867</u>	<u>528,118</u>

11. Recoverable from Reinsurers and Coinsurers

	2013 \$'000	2012 \$'000
Claims recoverable from reinsurers and coinsurers	15,784	19,117
Reinsurers' portion of claims outstanding (Note 18)	212,938	449,173
Reinsurers' portion of unearned premiums (Note 18)	852,211	775,955
	<u>1,080,933</u>	<u>1,244,245</u>

12. Other Receivables

	2013 \$'000	2012 \$'000
Staff loans	3,366	808
Prepayments	3,048	5,559
Other	10,782	7,600
	<u>17,196</u>	<u>13,967</u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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13. Related Party Transactions and Balances

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

	2013 \$'000	2012 \$'000
Premiums receivable	<u>113</u>	<u>31</u>
Claims outstanding	<u>-</u>	<u>97</u>

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

	2013 \$'000	2012 \$'000
Cash and short term investments –		
Fellow subsidiaries	73,059	101,035
Ultimate parent company	<u>430</u>	<u>402</u>
	<u>73,489</u>	<u>101,437</u>
Investments – Ultimate parent company	<u>100,649</u>	<u>100,723</u>
Due from agents, brokers and policyholders –		
Fellow subsidiaries	67,241	68,327
Ultimate parent company	<u>1,166</u>	<u>446</u>
	<u>68,407</u>	<u>68,773</u>
Due from/(to) group companies -		
Fellow subsidiaries	(390)	132
Parent company	727	2,108
Ultimate parent company	<u>(1,046)</u>	<u>156</u>
	<u>(709)</u>	<u>2,396</u>
Other payables – Fellow subsidiary	<u>11,117</u>	<u>5,855</u>
Bank overdraft – Fellow subsidiary	<u>2,627</u>	<u>10,563</u>
Claims outstanding (gross) -		
Fellow subsidiaries	8,154	93,657
Ultimate parent company	<u>11,574</u>	<u>53,121</u>
	<u>19,728</u>	<u>146,778</u>

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Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

13. Related Party Transactions and Balances (Continued)

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

	2013	2012
	\$'000	\$'000
Staff costs –		
Wages and salaries	34,058	41,200
Statutory contributions	<u>3,438</u>	<u>3,958</u>
Directors' emoluments -		
Fees	3,078	3,075
Management remuneration (included in staff costs above)	<u>12,918</u>	<u>18,877</u>
Gross premiums written	<u>3,774</u>	<u>2,935</u>

Jamaica International Insurance Company Limited

Notes to the Financial Statements

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13. Related Party Transactions and Balances (Continued)

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

	2013 \$'000	2012 \$'000
Gross premiums written –		
Fellow subsidiaries	300,577	301,787
Parent company	311	-
Ultimate parent company	104,385	93,604
	<u>405,273</u>	<u>395,391</u>
Reinsurance ceded – Fellow subsidiaries	<u>86,436</u>	<u>74,760</u>
Commission income – Fellow subsidiaries	<u>11,366</u>	<u>9,862</u>
Commission expense – Fellow subsidiaries	<u>115,041</u>	<u>122,097</u>
Claims expense (gross) –		
Fellow subsidiaries	9,493	13,226
Ultimate parent company	12,096	3,939
	<u>21,589</u>	<u>17,165</u>
Administration expenses –		
Parent company	15,744	18,338
Ultimate parent company	8,129	421
Fellow subsidiaries	1,380	16,524
	<u>25,253</u>	<u>35,283</u>
Other operating expenses –		
Allocation of central office expenses paid to parent company	<u>168,433</u>	<u>163,008</u>
Interest earned -		
Fellow subsidiaries	4,865	4,203
Ultimate parent company	7,749	8,479
	<u>12,614</u>	<u>12,682</u>
Rental income - Fellow subsidiaries	<u>4,967</u>	<u>4,134</u>
Royalty expense – Fellow subsidiary	<u>47,891</u>	<u>44,996</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
2013					
At Cost or Valuation -					
At 1 January 2013	369,500	49,433	113,099	35,877	567,909
Additions	3,074	1,195	12,766	11,257	28,292
Disposals	(82,500)	(623)	(1,111)	(13,880)	(98,114)
At 31 December 2013	290,074	50,005	124,754	33,254	498,087
Depreciation -					
At 1 January 2013	-	6,134	49,253	20,168	75,555
Charge for the year	4,540	4,977	11,792	7,666	28,975
On disposals	(802)	(182)	(442)	(10,476)	(11,902)
At 31 December 2013	3,738	10,929	60,603	17,358	92,628
Net Book Value -					
31 December 2013	286,336	39,076	64,151	15,896	405,459

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

14. Fixed Assets (Continued)

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Motor Vehicles \$'000	Total \$'000
2012					
At Cost or Valuation -					
At 1 January 2012	321,302	26,419	124,682	34,893	507,296
Additions	506	25,987	24,991	3,894	55,378
Disposals	-	(2,973)	(34,035)	(2,910)	(39,918)
Revaluation	47,692	-	-	-	47,692
Transferred to intangible assets	-	-	(2,539)	-	(2,539)
At 31 December 2012	369,500	49,433	113,099	35,877	567,909
Depreciation -					
At 1 January 2012	3,952	4,565	61,017	15,137	84,671
Charge for the year	3,978	2,975	11,564	7,941	26,458
On disposals	-	(1,406)	(22,404)	(2,910)	(26,720)
Revaluation	(7,930)	-	-	-	(7,930)
Transferred to intangible assets	-	-	(924)	-	(924)
At 31 December 2012	-	6,134	49,253	20,168	75,555
Net Book Value -					
31 December 2012	369,500	43,299	63,846	15,709	492,354

Land and buildings are carried at fair market value based on a valuation in 2012 by D.C. Tavares & Finson Company Limited, professional valuers. If land and buildings were stated on the historical cost basis, the cost would be \$54,093,000 (2012 – \$92,262,000) with accumulated depreciation of \$11,893,000 (2012 – \$19,779,000).

Jamaica International Insurance Company Limited

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15. Intangible Assets

	Policy Contracts \$'000	Computer Software \$'000	Total \$'000
	2013		
At Cost -			
At 1 January 2013	589,088	18,905	607,993
Additions	-	191	191
Transferred from fixed assets	-	-	-
At 31 December 2013	589,088	19,096	608,184
Amortisation -			
At 1 January 2013	274,907	12,786	287,693
Transferred from fixed assets	-	-	-
Amortisation charge	39,272	3,436	42,708
At 31 December 2013	314,179	16,222	330,401
Net Book Value -			
31 December 2013	274,909	2,874	277,783
	2012		
At Cost -			
At 1 January 2012	589,088	11,837	600,925
Additions	-	4,529	4,529
Transferred from fixed assets	-	2,539	2,539
At 31 December 2012	589,088	18,905	607,993
Amortisation -			
At 1 January 2012	235,634	10,134	245,768
Transferred from fixed assets	-	924	924
Amortisation charge	39,273	1,728	41,001
At 31 December 2012	274,907	12,786	287,693
Net Book Value -			
31 December 2012	314,181	6,119	320,300

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 14%, 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 1%.

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16. Pensions and Other Post-Employment Obligations

The company participates in a defined contribution pension scheme and a defined benefit pension scheme operated by the ultimate parent company, GraceKennedy Limited and administered by fellow subsidiary, First Global Financial Services Limited, in which eligible permanent employees must participate.

Defined contribution scheme

The defined contribution pension scheme is open to Jamaican based employees hired on or after 1 April 2012. 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 \$7,282,000 (2012 - \$5,443,000).

Defined benefit scheme

The plan, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.02% (2012 – 0.02%) as recommended by independent actuaries. Pension at normal retirement age is based on 2% final average earnings times the number of years of pensionable service. Final average earnings is the average of the highest three years annual salary earned by the member during his last ten years of service immediately preceding his actual retirement date, and in respect of which he had made contributions to the scheme. The scheme was closed to new members as at 31 March 2012. The company's contribution for the year was \$78,000 (2012 - \$110,000).

	2013 \$'000	Restated 2012 \$'000
Liabilities recognised in the statement of financial position		
Pension Scheme	-	215,456
Other employee benefits	172,053	175,674
	<u>172,053</u>	<u>391,130</u>
Amounts recognised in the statement of comprehensive income		
Pension Scheme	215,378	(95,052)
Other employee benefits	15,424	2,820
	<u>230,802</u>	<u>(92,232)</u>

Pension benefits

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

	2013 \$'000	Restated 2012 \$'000
Present value of obligations	934,514	852,726
Fair value of plan assets	(934,514)	(637,270)
Liability in the statement of financial position	<u>-</u>	<u>215,456</u>

Jamaica International Insurance Company Limited

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16. Pensions and Other Post-Employment Obligations

Pension benefits (continued)

The movement in the defined benefit obligation over the year is as follows:

	2013	Restated
	\$'000	2012
		\$'000
Balance at beginning of year, as restated	852,726	678,827
Current service cost	42,997	36,167
Past service cost	-	-
Interest cost	93,939	72,321
	<u>136,936</u>	<u>108,488</u>
Remeasurements:		
Loss from change in demographic assumptions	-	24,815
Gain/(loss) from change in financial assumptions	2,330	(19,439)
Experience (gains)/losses	(44,159)	61,097
	<u>(41,829)</u>	<u>66,473</u>
Members' contributions	22,868	17,498
Benefits paid	(36,187)	(18,560)
Balance at end of year	<u>934,514</u>	<u>852,726</u>

The movement in the fair value of plan assets for the year is as follows:

	2013	Restated
	\$'000	2012
		\$'000
Balance at beginning of year,	637,270	549,042
Interest income on plan	66,804	54,857
Remeasurements:		
Return on plan assets, excluding amounts included in interest income	173,550	(28,579)
Members' contributions	22,868	17,498
Employer's contributions	78	110
Benefits paid	(36,187)	(18,560)
Adjustment to plan assets	70,131	62,902
Balance at end of year	<u>934,514</u>	<u>637,270</u>

Jamaica International Insurance Company Limited

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31 December 2013

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

Pension benefits (continued)

The amounts recognized in the income statement are as follows:

	2013	Restated
	\$'000	2012
		\$'000
Current service cost	42,997	36,167
Interest income (net)	27,134	17,464
Adjustment to plan assets	(70,131)	(62,902)
Total, included in staff costs (Note 26)	<u>-</u>	<u>(9,271)</u>

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

	2013	2012
	%	%
Equity securities	18	16
Government securities	56	60
Other	26	24
	<u>100</u>	<u>100</u>

Expected employer contributions to the plan for the year ending 31 December 2014, amount to \$49,000.

The principal actuarial assumptions used were as follows:

	2013	2012
Discount rate	9.5%	10.5%
Long term inflation rate	5.5%	6.0%
Future salary increases	6.0%	7.5%
Future pension increases	<u>5.5%</u>	<u>6.5%</u>

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

Jamaica International Insurance Company Limited

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

Pension benefits (continued)

The average life expectancy in years of a pensioner retiring at age 60 on the statement of financial position date is as follows:

	2013	2012
Male	23.18	23.09
Female	25.98	25.93

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Impact on post-employment obligations		
	Change in Assumption	Increase in Assumption \$'000	Decrease in Assumption \$'000
Discount rate	1%	(148,309)	192,890
Future salary increases	1%	62,314	(54,911)
Expected pension increase	1%	116,752	(97,362)
		Increase Assumption by One Year	Decrease Assumption by One Year
Life expectancy		22,656	(26,163)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Other post-employment obligations

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

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long term increase in health costs of 7.0% per year (2012 - 7.5% per year).

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

Jamaica International Insurance Company Limited

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(expressed in Jamaican dollars unless otherwise indicated)

Other post-employment obligations (continued)

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

	2013	Restated
	\$'000	2012
		\$'000
Present value of unfunded obligations	172,053	175,674

The movement in the defined benefit obligation over the year is as follows:

	2013	Restated
	\$'000	2012
		\$'000
Balance at beginning of year, as restated	175,674	161,257
Current service cost	13,430	12,895
Past service cost	(16,004)	(10,234)
Interest cost	19,667	17,280
	<u>17,093</u>	<u>19,941</u>
Remeasurements:		
Loss from change in demographic assumptions	-	4,740
Loss/(Gain) from change in financial assumptions	18,903	(7,075)
Experience gains	(34,327)	(485)
	<u>(15,424)</u>	<u>(2,820)</u>
Benefits paid	(5,290)	(2,704)
Balance at end of year	<u>172,053</u>	<u>175,674</u>

Jamaica International Insurance Company Limited

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

Other post-employment obligations (continued)

The amounts recognized in the income statement are as follows:

	2013	Restated
	\$'000	2012
		\$'000
Current service cost	13,430	12,895
Interest cost	19,667	17,280
Past service cost	(16,004)	(10,234)
Total, included in staff costs (Note 26)	<u>17,093</u>	<u>19,941</u>

The total charge was included in administration expenses.

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

	2013	Restated
	\$'000	2012
		\$'000
		Restated
Gratuity Plan	51,079	71,639
Group Life Plan	27,174	21,083
Insured Group Health	42,082	28,199
Self Insured Health Plan	47,162	50,797
Supplementary Pension Plan	<u>4,556</u>	<u>3,956</u>
Liability in the statement of financial position	<u>172,053</u>	<u>175,674</u>

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

	Impact on post-employment obligations		
	Change in	Increase in	Decrease in
	Assumption	Assumption	Assumption
		\$'000	\$'000
Discount rate	1%	(7,023)	9,069
Medical inflation rate	1%	9,204	(7,221)

Jamaica International Insurance Company Limited

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

Other post-employment obligations (continued)

Risks associated with pension plans and post-employment plans

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

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields. If plan assets underperform this yield, this will create a deficit.

As the plan matures, the group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. This process includes monitoring and rebalancing the asset classes and the maturity profile of assets within these classes. The Government bonds largely represent investments in Government of Jamaica securities.

The group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plan efficiently.

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted. The majority of the plan's assets are either unaffected by (fixed interest securities) or loosely correlated with (equities) inflation, meaning that an increase in inflation has the potential to reduce the surplus or create a deficit.

Life expectancy

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

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for formulating and monitoring investment portfolios and investment strategies for the plan. The Committee is also responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. A large portion of assets in 2013 consists of bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate by the company is 0.02% of pensionable salaries. The next triennial valuation is due to be completed as at 31 December 2016.

Jamaica International Insurance Company Limited

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

Other post-employment obligations (continued)

Risks associated with pension plans and post-employment plans

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

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

Plans	Years
Gratuity Plan	13.4
Group Life Plan	17
Insured Group Health	20.1
Pension Plan	19
Self Insured Health Plan	18.1
Superannuation plan	<u>8.5</u>

Expected maturity analysis of undiscounted pension and other post-employment benefits:

At 31 December 2013	Less than 1 Year \$'000	2 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
Pension benefits	9,504	63,812	7,421,367	7,494,683
Other post-employment benefits	3,810	12,048	1,392,492	1,408,350
Total	13,314	75,860	8,813,859	8,903,033

17. Bank Overdraft

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

Jamaica International Insurance Company Limited

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18. Insurance Reserves

	2013 \$'000	2012 \$'000
Gross –		
Claims outstanding	2,645,857	2,273,212
Unearned premiums	2,032,649	1,957,035
Unearned commission	163,952	151,857
	<u>4,842,458</u>	<u>4,382,104</u>
Reinsurance ceded –		
Claims outstanding (Note 11)	212,938	449,173
Unearned premiums (Note 11)	852,211	775,955
	<u>1,065,149</u>	<u>1,225,128</u>
Net –		
Claims outstanding	2,432,919	1,824,039
Unearned premiums	1,180,438	1,181,080
Unearned commission	163,952	151,857
	<u><u>3,777,309</u></u>	<u><u>3,156,976</u></u>

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18. Insurance Reserves (Continued)

An actuarial valuation was performed to value the policy and claims liabilities of the company as at December 31, 2013 in accordance with the Insurance Act of Jamaica by the appointed actuary, Josh Worsham, FCAS, MAAA of Mid Atlantic Actuarial. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles. The actuary has stated that his report conforms to the standards of practice as established by the Canadian Institute of Actuaries, with such changes as directed by the Financial Services Commission, specifically, that the valuation of some policy and claims liabilities 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 31 March 2014 the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2013 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:

	2013	2012
	\$'000	\$'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	2,273,212	1,909,325
Reinsurance ceded	(449,173)	(388,511)
	<u>1,824,039</u>	<u>1,520,814</u>
Movement during the year –		
Claims incurred, including IBNR	1,885,747	1,341,697
Claims paid	(1,276,867)	(1,038,472)
	<u>608,880</u>	<u>303,225</u>
Net reserves for claims outstanding at end of year	2,432,919	1,824,039
Reinsurance ceded	212,938	449,173
Gross reserves for claims outstanding at end of year	<u><u>2,645,857</u></u>	<u><u>2,273,212</u></u>

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the 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.

Jamaica International Insurance Company Limited

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19. Other Payables

	2013 \$'000	2012 \$'000
Accruals	58,781	77,358
Other	66,856	50,634
	<u>125,637</u>	<u>127,992</u>

20. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 $\frac{1}{3}$ %. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Deferred tax balances in respect of pension plan and employee benefit obligations have been restated consequential on adoption of revisions to IAS 19 (Note 29).

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

	2013 \$'000	Restated 2012 \$'000
At beginning of year, as restated (Note 29)	(13,972)	(1,599)
Tax (credited)/charged to profit or loss (Note 27)	(54)	6,474
Tax charged to other comprehensive income	68,101	(18,847)
At end of year	<u>54,075</u>	<u>(13,972)</u>

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

Deferred tax liabilities	Accelerated depreciation \$'000	Revaluation of buildings \$'000	Interest receivable \$'000	Foreign exchange gains \$'000	Total \$'000
At 1 January 2012	5,301	67,739	23,877	1,042	97,959
(Credited)/charged to profit or loss	442	-	(288)	8,701	8,855
Charged to other comprehensive income	-	11,897	-	-	11,897
At 31 December 2012	5,743	79,636	23,589	9,743	118,711
(Credited)/charged to profit or loss	(4,142)	-	(5,028)	17,949	8,779
Charged to other comprehensive income	-	(8,833)	-	-	(8,833)
At 31 December 2013	<u>1,601</u>	<u>70,803</u>	<u>18,561</u>	<u>27,692</u>	<u>118,657</u>

Jamaica International Insurance Company Limited

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20. Deferred Income Taxes (Continued)

Deferred tax assets	Other	Pension plan obligation	Employee benefits obligation	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2012, as restated	2,544	43,262	53,752	99,558
(Charged)/credited to profit or loss	(238)	(3,127)	5,746	2,381
(Charged)/credited to other comprehensive income	-	31,684	(940)	30,744
At 31 December 2012, as restated	2,306	71,819	58,558	132,683
(Charged)/credited to profit or loss	4,925	(26)	3,934	8,833
(Charged)/credited to other comprehensive income	-	(71,793)	(5,141)	(76,934)
At 31 December 2013	7,231	-	57,351	64,582

These balances include the following:

	2013 \$'000	2012 \$'000
Deferred tax liabilities to be settled after more than 12 months	72,404	85,379
Deferred tax assets to be recovered after more than 12 months	60,673	130,377

21. Share Capital

	2013 \$'000	2012 \$'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
	1,065,076	1,065,076

The preference shares are issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary, and carry no voting rights for the holder. The shares may not be redeemed at the request of the holder. The company has no obligation to redeem the shares and they are subordinate to the company's obligations to its policyholders and unsecured creditors. In any event, any redemption shall be subject to the approval, in writing, of the FSC. Dividends for the preference shares are paid at the discretion of the Board of Directors but in any given financial year shall not exceed 8% of the total capital paid up on the preference shares, and are not cumulative.

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22. Capital and Fair Value Reserves

	2013 \$'000	2012 \$'000
Realised gain on sale of investments	824	824
Unrealised gains on the revaluation of available-for-sale investments	4,533	97,337
Unrealised surplus on the revaluation of fixed assets, net of deferred tax	210,523	201,689
	<u>215,880</u>	<u>299,850</u>

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.

	2013 \$'000	2012 \$'000
At beginning of year	4,011	3,504
Value of services received	211	507
At end of year	<u>4,222</u>	<u>4,011</u>

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

	Average exercise price 2013 \$	Options 2013 '000	Average exercise price 2012 \$	Options 2012 '000
At beginning of year	50.83	122	43.74	206
Forfeited	50.83	(15)	43.91	(79)
Exercised	-	-	43.91	(5)
At end of year	<u>50.83</u>	<u>107</u>	<u>50.83</u>	<u>122</u>

The options granted were at subscription prices of \$50.83 for managers, 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. The options are exercisable over a period of six years for managers, at which time unexercised options will expire. 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. The options for permanent employee expired during 2013.

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23. Share Options Reserve (continued)

Shares option were outstanding on 107,000 (2012 - 122,000) shares at the end of the year for managers. The options have exercise price of \$61.20 and expire in 2017.

The fair value of options granted determined using the Black-Scholes valuation model was \$4,984,000, of which \$211,000 (2012 - \$507,000) 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.

24. Other Income

	2013	2012
	\$'000	\$'000
Interest earned – available for sale securities	279,054	309,877
Gain on the sale of investments	97,371	15,169
Gain/(Loss) on disposal of fixed assets	8,899	(1,049)
Dividend income	1,636	4,553
Net foreign exchange gains	113,522	48,119
Miscellaneous income	20,699	19,795
Fronting fees	15,296	9,301
Rental income	5,995	5,014
	<u>542,472</u>	<u>410,779</u>

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25. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2013	2012
	\$'000	\$'000
Advertising and public relations	20,048	30,441
Allocation of central office expenses paid to parent company	168,433	163,008
Amortisation of intangible assets	42,708	41,001
Asset tax	10,558	7,420
Auditor's remuneration	4,288	4,513
Bad debt expense	894	350
Bank charges	13,646	14,044
Data processing	75,503	63,421
Depreciation	28,975	26,458
Directors' fees	3,011	3,073
Occupancy - rent, utilities, insurance, security	61,995	58,316
Office expenses	34,874	33,616
Professional fees	18,726	12,004
Registration fees and stamp duty	20,398	18,811
Repairs and maintenance	10,877	9,720
Royalty expense	47,892	44,996
Staff costs (Note 26)	419,037	451,466
Underwriting expenses	23,298	25,251
	<u>1,005,161</u>	<u>1,007,909</u>

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26. Staff Costs

	2013 \$'000	2012 \$'000
Wages and salaries	298,367	338,107
Statutory contributions	34,983	32,946
Pension – defined contribution (Note 16)	7,282	5,443
Pension – defined benefit (Note 16)	(5,290)	(5,450)
Other retirement benefits (Note 16)	17,015	21,908
Redundancy Costs	4,278	-
Other	62,402	58,512
	<u>419,037</u>	<u>451,466</u>

The number of persons employed full-time by the company at year-end was 149 (2012 –174).

27. Taxation

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

	2013 \$'000	2012 \$'000
Current taxation -		
Charge for the year	-	69,661
Prior year adjustment	-	(380)
Deferred taxation (Note 20)	(54)	6,474
	<u>(54)</u>	<u>75,755</u>

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

	2013 \$'000	2012 \$'000
Profit before taxation	<u>17,275</u>	<u>256,574</u>
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	5,758	85,525
Adjusted for the effects of –		
Share option expense	70	169
Tax-free interest income	(7,088)	(6,782)
Tax-free dividend income	-	(129)
Excess of depreciation over capital allowances	4,276	(1,548)
Dividend paid on preference shares	(8,792)	(7,759)
Amortisation of intangible assets	13,091	13,091
Adjustment to prior year current tax	-	(380)
Other charges and credits, net	(7,369)	(6,432)
	<u>(54)</u>	<u>75,755</u>

Subject to the agreement with the Commissioner of Income Tax, losses available for set off against future profits amount to approximately \$9,965,000 (2012 - Nil) and can be carried forward indefinitely. Deferred tax asset of \$3,322,000 has been calculated and included in other assets in Note 20.

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27. Taxation (Continued)

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

	2013	2012
	\$'000	\$'000
Post retirement benefit assets and obligations	3,908	2,619
Unrealised foreign exchange gains	(17,949)	(8,701)
Interest receivable	5,028	288
Other	9,067	(680)
	<u>54</u>	<u>(6,474)</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.

29. Restatement

The financial statements of the company for the years ended 31 December 2012 and 31 December 2011 have been restated to reflect the effect of the adoption of IAS 19 (Revised), 'Employee Benefits'.

Restatement of prior year balances relate to the impact of the adoption of IAS 19 (Revised) and consequential adjustments to deferred tax. The amendment eliminates the corridor approach to recognition of actuarial gains and losses arising from IAS 19 pension valuations and results in the recognition of all actuarial gains and losses in other comprehensive income (OCI) as they occur. Additionally, all past service costs are immediately recognised and interest cost and expected return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.

The effect of these revisions on 2011 statement of comprehensive income was the immediate recognition in other comprehensive income of actuarial gains of \$68 million on pension benefits and actuarial gains of \$9 million on other retirement obligations, the recognition in profit or loss of \$17 million of past service cost and the recognition of a net interest expense decrease of \$43 million and a reversal of \$11 million for actuarial loss previously recognised in the profit or loss.

The effect of these revisions on 2012 statement of comprehensive income was the immediate recognition of actuarial losses of \$95 million on pension benefits and actuarial gains of \$3 million on other retirement obligations, the recognition in profit or loss of \$10 million of past service cost, and the recognition of a net interest expense decrease of \$34 million and a reversal of \$6 million for actuarial loss previously recognised in the profit or loss.

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29. Restatement (Continued)

Effect on statement of financial position as at 31 December 2011:

	As previously stated \$'000	Effects of restatements \$'000	As restated \$'000
Assets			
Deferred tax assets	-	1,599	1,599
Pension plan assets	3,900	(3,900)	-
Other assets	6,533,179	-	6,533,179
Total Assets	6,537,079	(2,301)	6,534,778
Liabilities			
Deferred tax liabilities	51,102	(51,102)	-
Other post-employment obligations	136,839	154,203	291,042
Other liabilities	4,161,322	-	4,161,322
Total Liabilities	4,349,263	103,101	4,452,364
Equity			
Capital and reserves attributable to the company's owners			
Share capital and other reserves	1,396,108	-	1,396,108
Retained earnings	791,708	(105,402)	686,306
Total Equity	2,187,816	(105,402)	2,082,414
Total Equity and Liabilities	6,537,079	(2,301)	6,534,778

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29. Restatement (Continued)

Effect on statement of financial position as at 31 December 2012:

	As previously stated \$'000	Effects of restatements \$'000	As restated \$'000
Assets			
Deferred tax assets	-	13,972	13,972
Pension plan assets	9,460	(9,460)	-
Other assets	7,229,950	-	7,229,950
Total Assets	<u>7,239,410</u>	<u>4,512</u>	<u>7,243,922</u>
Liabilities			
Deferred tax liabilities	67,544	(67,544)	-
Other post-employment obligations	156,043	235,087	391,130
Other liabilities	4,901,496	-	4,901,496
Total Liabilities	<u>5,125,083</u>	<u>167,543</u>	<u>5,292,626</u>
Equity			
Capital and reserves attributable to the company's owners			
Share capital and other reserves	1,368,430	-	1,368,430
Retained earnings	745,390	(163,031)	582,359
Total Equity	<u>2,114,327</u>	<u>(163,031)</u>	<u>1,951,296</u>
Total Equity and Liabilities	<u>7,239,410</u>	<u>4,512</u>	<u>7,243,922</u>

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29. Restatement (Continued)

Effect on the results of the operations for the year ended 31 December 2012

	As previously stated \$'000	Effects of restatements \$'000	As restated \$'000
Administration expenses	(819,650)	5,788	(813,862)
Profit before Taxation	250,786	5,788	256,574
Taxation	(73,826)	(1,929)	(75,755)
Profit for the Year	176,960	3,859	180,819
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss			
Fair value losses on available-for-sale financial assets	(71,403)	-	(71,403)
Items that will not be reclassified to profit and loss			
Gains on revluation of land and buildings, net of taxes	43,725	-	43,725
Remeasurements of post-employment benefit obligations	-	(61,488)	(61,488)
Other Comprehensive income, net of taxes	(27,678)	(61,488)	(89,166)
Total Comprehensive Income	149,282	(57,629)	91,653