IRONROCK INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

KPMG

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ironrock Insurance Company Limited ("the company"), set out on pages 7 to 51, which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Cont'd)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	**How was the matter addressed in our audit**
Estimates for outstanding claims One of the key sources of estimation uncertainty is the estimates included in outstanding claims, which comprise estimates of the amount of reported losses, loss expenses, and provision for losses incurred but not reported, based on historical experience of the company. This is an area of audit focus as significant management and actuarial assumptions are used in determining outstanding claims at the end of the reporting period.	Our audit procedures included the following: • Challenging the assumptions applied by management's experts in the preparation of the annual valuation of the company's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements. • Including our own actuarial specialist to assist us in evaluating the assumptions and methodologies used by management's experts, in particular the actuarial methods used to develop the selected ultimate expected losses. • Testing the controls over the claims payments process and the case reserving process. • Assessing the adequacy of the disclosures about the degree of estimation involved in arriving at the reported balance.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Cont'd)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Cont'd)

Auditors' Responsibility for the Audit of the Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 5 and 6, forms part of our auditors' report.

Report on additional matters 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 maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Nyssa Johnson.

KPMG

Chartered Accountants
Kingston, Jamaica
March 22, 2019

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Appendix to the Independent Auditors' report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
IRONROCK INSURANCE COMPANY LIMITED

Appendix to the Independent Auditors' report (Cont'd)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

IRONROCK INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2018

	Notes	2018	2017
		\$'000	\$'000
ASSETS			
Property, plant and equipment	5	12,805	16,398
Intangible asset	6	5,118	5,760
Investments	7	434,587	280,610
Deferred acquisition costs	8	34,592	23,650
Reinsurance assets	9	176,745	190,771
Insurance and other receivables	10	142,134	166,307
Taxation recoverable		15,260	9,160
Short-term investments	11	108,317	171,351
Securities purchased under resale agreements	12	20,297	17,256
Cash and cash equivalents		61,161	56,502
		1,011,016	937,765
LIABILITIES AND SHAREHOLDERS' EQUITY			
Insurance and other payables	13	109,971	100,682
Insurance contract provisions	9	360,200	303,392
Deferred commission income	14	26,132	21,352
		496,303	425,426
Share capital	15	465,540	465,540
Capital reserves	16	139,340	139,340
Investment revaluation reserve		5,129	5,527
Accumulated deficit		(95,296)	(98,068)
		514,713	512,339
		1,011,016	937,765

The financial statements, on pages 7 to 51 were approved for issue by the Board of Directors on March 22, 2019 and signed on their behalf by:

Director
W. David McConnell

Director
R. Evan Thwaites

IRONROCK INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2018

	Notes	2018	2017
		$'000	$'000
Gross premiums written	17, 9(b)	571,838	424,462
Change in gross provision for unearned premiums		(42,109)	(142,651)
Gross insurance premium revenue	9(b)	529,729	281,811
Written premiums ceded to reinsurers	9(b)	(356,844)	(296,059)
Reinsurers' share of change in provision for unearned premiums		11,332	92,256
Net insurance premium revenue	9(b)	184,217	78,008
Claims expenses incurred	9(a)	(93,422)	(123,144)
Reinsurers' share of claims and benefits incurred	9(a)	21,035	76,315
Net insurance claims		(72,387)	(46,829)
Commission expense	8	(60,022)	(31,456)
Commission income	14	66,314	33,630
Net commission income		6,292	2,174
Profit before operating expenses		118,122	33,353
Operating expenses	18(b)	(160,099)	(134,735)
Underwriting loss before other income		(41,977)	(101,382)
Investment income, net	19	32,218	30,740
Other income		1,004	-
Foreign exchange gain/(loss)		8,370	(1,305)
Gain on sale of investments		3,157	24,085
Profit/(loss) for the year		2,772	(47,862)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Fair value (losses)/gains on investments, being total other comprehensive income		(398)	22
Total comprehensive income/(loss) for the year		2,374	(47,840)
Earnings/(loss) per stock unit			
Based on stock units in issue	20	1 cent	(22 cents)

The accompanying notes form an integral part of the financial statements.

IRONROCK INSURANCE COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Year ended December 31, 2018

	Share Capital $'000 (note 15)	Capital reserves $'000 (note 16)	Investment revaluation reserve $'000	Accumulated profit/(deficit) $'000	Total $'000
Balances at December 31, 2016	465,540	139,340	5,505	(50,206)	560,179
Loss for the year	-	-	-	(47,862)	(47,862)
Other comprehensive income:					
Fair value gains on investments	-	-	22	-	22
Total comprehensive income/(loss)	-	-	22	(47,862)	(47,840)
Balances at December 31, 2017	465,540	139,340	5,527	(98,068)	512,339
Profit/ for the year				2,772	2,772
Other comprehensive income:					
Fair value loss on investments	-	-	(398)	-	(398)
Total comprehensive income/(loss)	-	-	(398)	2,772	2,374
Balances at December 31, 2018	465,540	139,340	5,129	(95,296)	514,713

The accompanying notes form an integral part of the financial statements.

IRONROCK INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2018

	Notes	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the year		2,772	(47,862)
Adjustments for:			
Depreciation and amortisation	5,6	5,197	5,130
Write-off of property, plant and equipment		-	47
Insurance contract provisions		70,834	70,242
Interest income	19	(27,458)	(28,555)
Gain on sale of investment		(3,157)	(24,085)
		48,188	(25,083)
Changes in:			
Deferred acquisition costs		(10,942)	(13,911)
Insurance and other receivables		26,766	(119,557)
Insurance and other payables		9,289	75,263
Deferred commission income		4,780	12,020
Taxation paid		(6,100)	(6,538)
Net cash provided/(used) by operating activities		71,981	(77,806)
CASH FLOWS FROM INVESTING ACTIVITIES			
Short term investments, net		63,034	(101,004)
Securities (purchased)/sold under resale agreements		(3,041)	13,393
Proceeds from disposal of investments		50,889	93,184
Investments, net		(202,107)	15,855
Acquisition of property, plant and equipment	5	(962)	(443)
Acquisition of intangible assets	6	-	(1,836)
Interest received		24,865	28,923
Net cash (used)/provided by investing activities		(67,322)	48,072
Net increase/(decrease) in cash and cash equivalents		4,659	(29,734)
Cash and cash equivalents at beginning of the year		56,502	86,236
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		61,161	56,502
Comprised of:			
Cash and bank balances		61,161	56,502

The accompanying notes form an integral part of the financial statements.

1. Corporate structure and nature of business

Ironrock Insurance Company Limited (the company) was incorporated June 9, 2015 and is domiciled in Jamaica, with its registered office at 1b Braemar Avenue, Kingston 10. It is a 50.9% subsidiary of Granite Group Limited, a company incorporated and domiciled in St. Lucia. The company is listed on the Junior Market of the Jamaica Stock Exchange.

The principal activity of the company is the underwriting of general insurance business. The company commenced trading March 2016.

2. Insurance licence

The company is registered under the Insurance Act 2001 (the Act).

3. Roles of the actuary and auditors

The actuary is appointed by the Board of Directors pursuant to the Act. With respect to preparation of financial statements, the actuary carries out an actuarial valuation of management's estimate of the company's policy liabilities and reports thereon to the shareholders. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive that may be made by regulatory authorities. The actuary, in his verification of the management information provided by the company, and which is used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors are appointed by the shareholders pursuant to the Jamaican Companies Act to conduct an independent audit of the financial statements of the company in accordance with International Standards on Auditing and to report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

4. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB) and comply with the provisions of the Jamaican Companies Act.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that became effective during the year:

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations which were in issue were not effective at the reporting date and has not been early-adopted by the company. Those which are considered relevant to the company are as follows:

- IFRS 9 *Financial Instruments* - As an insurance company, the company has exercised the option to defer the effective date of the new standard to January 1, 2022, in line with IFRS 17 (see note 4b). The standard includes requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting. The company's current analysis is that this will not have a material impact on the financial statements.

- IFRS 16 *Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

  Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

  Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.

  The company is assessing the impact that this standard may have on its 2019 financial statements.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that became effective:

- IFRS 17 *Insurance Contracts*, In May 2017, the IASB issued IFRS 17, which is a comprehensive standard that establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4: Insurance Contracts ("IFRS 4"). The measurement approach for insurance liabilities under IFRS 17 is based on the following:

  i. A current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract;
  ii. The effect of the time value of money;
  iii. A risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and
  iv. A contractual service margin which represents the unearned profit in a contract and that is recognised in profit or loss over time as the insurance coverage is provided.

  There will also be new financial statement presentation for insurance contracts and additional disclosure requirements. IFRS 17 requires the company to distinguish between groups of contracts expected to be profit-making and groups of contracts expected to be onerous.

  IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2022 and is to be applied retrospectively to each group of insurance contracts. If full retrospective application to a group of contracts is impracticable, the modified retrospective or fair value methods may be used.

  The company is assessing the impact that the amendment may have on its 2022 financial statements.

- Amendments to IFRS 9 *Financial Instruments,* effective retrospectively for annual reporting periods beginning on or after January 1, 2019 clarifies the treatment of:

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(a) Statement of compliance (cont'd):

New, revised and amended standards and interpretations that became effective:

- Amendments to IFRS 9 *Financial Instruments* (cont'd)

  (ii) Modifications to financial liabilities:

  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

  As disclosed in note 4(b), the company has exercised the option to defer the effective date of the adoption of IFRS 9 to January 1, 2022, and is assessing the impact that this amendment may have on its 2022 financial statements.

- Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual reporting periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The company does not expect the amendment to have a significant impact on its financial statements.

(b) Changes in accounting policies

The company has adopted the amendments to IFRS 4 and other new standards including any amendments to other standards, with an initial application date of January 1, 2018 but they do not have a material effect on the company's financial statements.

The detail, nature and effects of the changes are explained below:

- Amendments to IFRS 4 *Insurance Contracts* provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 17 *Insurance Contracts* (effective January 1, 2022).

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(b) Changes in accounting policies (cont'd)

- IFRS 9 is generally effective for reporting periods beginning on or after January 1, 2018. In September 2016, the International Accounting Standards Board ("IASB") issued amendments to IFRS 4 - *Insurance contracts* ("IFRS 4"), which provide optional relief to eligible insurers in respect of IFRS 9. The options permit (a) entities whose predominant activity is issuing insurance contracts within the scope of IFRS 17 – *Insurance contracts* ("IFRS 17") a temporary exemption to defer the implementation of IFRS 9, or alternatively (b) give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9. Entities that apply either of the options will be required to adopt IFRS 9 on January 1, 2022, which aligns with the effective date of IFRS 17.

- The prescribed date of the assessment under the temporary exemption provisions is December 31, 2015, however, the company commenced operations in March 2016. The company evaluated its liabilities at December 31, 2016, and concluded that the liabilities were predominantly connected with insurance. 71% of the company's liabilities at December 31, 2016 are liabilities that arose from contracts within the scope of IFRS 17 and 23% of the company's liabilities at December 31, 2016 are liabilities that arise because the company issues insurance contracts and fulfils obligations arising from insurance contracts. Additionally, the company has not previously applied any version of IFRS 9. Therefore, the company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

- As at January 1, 2018, the company has elected to apply the optional transitional relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The company will continue to apply IAS 39 – *Financial instruments: Recognition and measurement* ("IAS 39") until January 1, 2022. See Note 7 Investments for additional disclosures which enable comparison between the company and entities that applied IFRS 9 at January 1, 2018.

(c) Basis of preparation:

The financial statements are prepared under the historical cost convention, modified for the inclusion of available-for-sale investments at fair value.

These financial statements are presented in Jamaica dollars ($), which is the functional currency of the company. The values presented in the financial statements have been rounded to the nearest thousand ($'000) unless otherwise stated.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(d) Going concern:

The preparation of the financial statements in accordance with IFRS assumes that the company will continue in operational existence for the foreseeable future. This means, *inter alia*, that the statements of financial position and profit or loss and other comprehensive income assume no intention or necessity to liquidate the company or curtail the scale of its operations. This is commonly referred to as the going concern basis.

At December 31, 2018, the company had an accumulated deficit of $95,296,000 (2017: $98,068,000) which is broadly in line with the projections that were issued at the time of their IPO. Based on these projections, the company is expected to make losses in the first two years of operation followed by profits. The company's existing capital is sufficient to meet prudent and regulatory capital requirements during this period as evidenced by its Minimum Capital Test result of 545% (2017: 666%) as compared to the regulatory requirement of 250%. Consequently, management is of the view that the going concern basis continues to be appropriate in the preparation of the financial statements.

(e) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expense for the year then ended. Actual amounts could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default and adverse economic conditions. Management makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(e) Use of estimates and judgements (cont'd):

(ii) Outstanding claims:

Outstanding claims comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on historical experience. The loss and loss expense reserves have been estimated by the company's actuary using the company's and industry data.

Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Notes 9 and 22 contain information about the assumptions and uncertainties relating to insurance liabilities and discloses the risk factors in these contracts. Note 24 contains information about the risks and uncertainties associated with financial instruments.

(f) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and include short-term deposits and other monetary investments with maturities ranging between one and three months from the reporting date. These are not subject to significant risk of change in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(g) Short-term investments:

Short-term investments comprise fixed deposits with banks, money market securities, and loans and receivables maturing within one year. They are acquired for their earnings potential and for balancing the company's risks on its investment portfolio. Their nature, liquidity and risk are similar to those of cash and cash equivalents.

(h) Insurance and other receivables:

Insurance and other receivables are measured at amortised cost less impairment losses.

(i) Insurance and other payables:

Insurance and other payables are measured at amortised cost.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(j) Provisions:

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligations.

(k) Related parties:

A related party is a person or company that is related to the entity which is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to the reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan established for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity (or of a parent of the entity).

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(k) Related parties (cont'd):

(b) (Cont'd):

(viii) The entity, or any member of a group of which it is apart provides key management services of the company.

A related party transaction involves transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

The company has a related party relationship with its directors, parent company, and key management personnel. "Key management personnel" represents certain senior officers of the company.

(l) Investments:

Investments with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables and are initially measured at cost and subsequently at amortised cost, using the effective interest method, less impairment losses.

Available-for-sale investments are stated at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost, with any movements in fair value included in investment revaluation reserve, except where there is evidence of impairment, in which event, reductions in fair value are recognised as impairment losses in profit or loss. The fair value of available-for-sale investments is based on their quoted market bid price at the reporting date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

Available-for-sale investments are recognised or derecognised by the company on the date they commit to purchase or sell the investments. Other investments are recognised or derecognised on the day they are transferred to/by the company.

(m) Property, plant and equipment:

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the company and its cost can be reliably measured.

The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(m) Property, plant and equipment (cont'd):

Property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of such assets, at the following annual rates:

Leasehold improvements	20%
Furniture, Fixtures and equipment	10%
Computer	33%

The depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

(n) Intangible assets and amortisation:

This includes computer software acquired by the company. This is measured at cost less accumulated amortisation and impairment losses. The estimated useful life of computer software is ten (10) years.

(o) Foreign currencies:

Foreign currency balances at the reporting date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in profit or loss are treated as cash items and included in cash flows from operating or financing activities along with movements in the relevant balances.

(p) Impairment:

Objective evidence that financial assets are impaired can include default or delinquency by a customer, indications that a customer will enter bankruptcy and changes in the payment status of customers.

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets with indefinite lives are assessed regardless of indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(p) Impairment (cont'd):

When a decline in fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amounts:

The recoverable amount of the company's receivables carried at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the assets.

Receivables with a short duration are not discounted. Impairment losses in respect of an available-for-sale investments are calculated by reference to its current fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit or pool of assets to which the asset belongs.

(ii) Reversals of impairment:

Impairment losses in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

For all other assets, an impairment loss is reversed if there is an indication that the impairment loss no longer exists and there has been a change in the estimate used to determine the recoverable amount.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale investment recognised previously in other comprehensive income is transferred to profit or loss. For available-for-sale equity securities, the reversal is recognised in other comprehensive income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(q) Insurance contracts recognition and measurement

(i) Recognition and measurement

Insurance contracts are accounted for in compliance with the recommendations and practices of the insurance industry and comply with the provisions of the Insurance Act 2001. The underwriting results are determined after making provision for, inter alia, unearned premiums, outstanding claims, unexpired risks, deferred commission expense and deferred commission income.

Gross written premiums

Gross premiums reflect business written during the year and include adjustments to premiums written in previous years. The earned portion of premiums is recognised as revenue. Premiums are earned from the effective date of the policy.

Unearned premiums

Unearned premiums represent that proportion of the premiums written up to the reporting date which is attributable to subsequent periods and are calculated on the "three sixty-fifths" basis on the total premiums written.

Unexpired risks

Unexpired risks represent the amount set aside in addition to unearned premiums, in respect of risks to be borne by the company under contracts of insurance entered into before the end of the financial year and are actuarially determined.

Outstanding claims

Outstanding claims comprise estimates of the amount of reported losses and loss expenses, plus a provision for losses incurred but not reported based on the historical experience of the company. The outstanding loss and loss expense reserves have been reviewed by the company's actuary using the past loss experience of the company and industry data. Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Management believes, based on the analysis completed by their actuary, that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(q) Insurance contracts recognition and measurement (cont'd):

(i) Recognition and measurement (cont'd)

Deferred acquisition cost and deferred commission income

Commission income and expense are deferred on a basis consistent with that used for deferring premium income.

(ii) Reinsurance assets

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned reinsurance premiums on business ceded up to the accounting date which are attributable to subsequent periods are calculated substantially on the "three sixty-fifths" basis on the total premiums ceded.

In the normal course of business, the company seeks to reduce the loss that may result from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers (see note 22). Reinsurance ceded does not discharge the company's liability as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the company. Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the income statement.

(iii) Insurance receivable and insurance payable

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables and not in insurance contract provisions or reinsurance assets.

(r) Revenue:

Revenue is measured based on the consideration specified in a contract with a policyholder. The company recognises revenue when it transfers control over a service to a policyholder.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(r) Revenue (cont'd):

Revenue comprises the following:

(i) Gross written premiums

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 4(q)(i).

(ii) Commission income

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts [see note 4(q)(ii)]. Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

(iii) Investment income

Investment income comprises income from financial assets. Income from financial assets comprises interest and dividends and realised gains/losses on financial assets. Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(s) Taxation:

Taxation of the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive, in which case it is also recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(s) Taxation (cont'd):

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(t) Employee benefits:

(i) Pension contribution

Pension plan costs are contributions by the company to approved retirement schemes. Obligations for contributions by the company to the schemes are recognised as an expense in profit or loss as they fall due.

(ii) Other employee benefits

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

(u) Securities purchased under resale agreements:

Securities purchased under resale agreements ("reverse repos") are short-term transactions whereby an entity buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred unless the counterparty fails to comply with the terms of the contract.

Reverse repos are accounted for as short-term collateralised lending, classified as loans and receivables and measured at amortised cost. The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

(v) Leases:

Payment made under operating lease are recognised in profit and loss on a straight-line basis over the term of the lease.

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(w) Segment reporting:

A segment is a distinguishable component of the company that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The company's activities are limited to the provision of general insurance to Jamaican consumers, operating in a single segment. As such no additional segment information is provided.

(x) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, investments, insurance receivables, and other accounts receivable. Financial liabilities include accounts payable and insurance payables.

(y) Determination of fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

5. Property, plant and equipment

	Computer $'000	Leasehold improvement $'000	Furniture, fixtures and equipment $'000	Total $'000
Cost:				
December 31, 2016	14,010	704	9,971	24,685
Additions	216	123	104	443
Write-off	-	-	(106)	(106)
December 31, 2017	14,226	827	9,969	25,022
Additions	501	-	461	962
December 31, 2018	14,727	827	10,430	25,984
Accumulated depreciation:				
December 31, 2016	2,799	133	1,042	3,974
Charge for the year	3,171	162	1,376	4,709
Write off	-	-	(59)	(59)
December 31, 2017	5,970	295	2,359	8,624
Charge for the year	3,227	197	1,131	4,555
December 31, 2018	9,197	492	3,490	13,179
Net book values:				
December 31, 2018	5,530	335	6,940	12,805
December 31, 2017	8,256	532	7,610	16,398

6. Intangible asset

	Software $'000
December 31, 2016	4,589
Addition	1,836
December 31, 2017 and 2018	6,425
Amortisation:	
December 31, 2016	244
Charge for the year	421
December 31, 2017	665
Charge for the year	642
December 31, 2018	1,307
Net book value:	
December 31, 2018	5,118
December 31, 2017	5,760

7. Investments

	2018 $'000	2017 $'000
Available-for-sale:		
Quoted equities	84,821	14,658
Units in unit trusts	21,648	11,218
Corporate Bonds	39,753	52,698
Global Bonds – TT	28,893	31,134
Government of Jamaica – Global bonds	72,786	-
Loans and receivables:		
Corporate Bonds	55,213	40,000
Government of Jamaica securities – J$ Bonds	100,000	100,000
Government of Jamaica securities – US$ Certificate of Deposit	31,473	30,902
	434,587	280,610

Investments include Government of Jamaica securities and corporate bonds denominated in foreign currency aggregating US$1,473,416 (2017: US$928,205).

$45,000,000 (2017: $45,000,000) of investment represents amounts held to the order of the Financial Services Commission as required by the Insurance Act 2001.

Investments, excluding interest receivable, are due from the reporting date as follows:

	2018 $'000	2017 $'000
No specific maturity	106,469	25,876
3 months to 1 year	-	35,000
1 year to 5 years	108,962	39,886
Over 5 years	219,156	179,848
	434,587	280,610

7. Investments (cont'd)

The following table presents the fair value and the amount of change in the fair value of the company's financial assets as at and for the period ended December 31, 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

Financial asset	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
Investments:		Fair value	Change in fair value	Fair value	Change in fair value
	$'000	$'000	$'000	$'000	$'000
Quoted equities	84,821	-	-	84,821	-
Unit in unit trusts	21,648	-	-	21,648	-
Corporate bonds	94,966	103,304	8,338	-	-
Global bonds - TT	28,893	28,893	-	-	-
Government of Jamaica – Local bonds	131,473	165,989	34,516	-	-
– Global bonds	72,786	72,786	-	-	-
	434,587	370,972	42,854	106,469	-
Short-term investments	108,317	108,317	-	-	-
Securities purchased under resale agreement	20,297	20,308	11	-	-

Credit risk

The following table presents the fair value and the amount of the change in fair value of the company's financial assets as at and for the period ended December 31, 2018, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

Credit rating	Carrying value Amount	Fair value	% of Fair value
	$'000	$'000	
Bonds and debentures and short-term investments			
Ba1	28,893	28,893	6%
B3	204,259	204,259	47%
Caa1	203,283	203,283	47%
	436,435	436,435	100%
Securities purchased under resale agreement			
B3	20,297	20,308	100%

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

8. Deferred acquisition costs

The analysis of the movement in deferred commission expense is as follows:

	2018 $'000	2017 $'000
Balance January 1	23,650	9,739
Commission paid during the year	70,964	45,367
Amounts recognised in income or expense during the year	(60,022)	(31,456)
Balance December 31	34,592	23,650

9. Reinsurance assets and insurance contract provisions

Analysis of movements in reinsurance assets and insurance contract provisions:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims outstanding	96,123	32,576	63,547	81,424	57,934	23,490
Unearned premiums	264,077	144,169	119,908	221,968	132,837	89,131
	360,200	176,745	183,455	303,392	190,771	112,621

(a) Claims outstanding:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims notified	49,537	38,375	11,162	2,041	520	1,521
Claims incurred but not reported	31,887	19,559	12,328	2,737	614	2,123
Balance at January 1	81,424	57,934	23,490	4,778	1,134	3,644
Claim incurred	93,422	21,035	72,387	123,144	76,315	46,829
Claims paid in year	(78,723)	(46,393)	(32,330)	(46,498)	(19,515)	(26,983)
Change in outstanding claims provision	14,699	(25,358)	40,057	76,646	56,800	19,846
Balance at December 31	96,123	32,576	63,547	81,424	57,934	23,490
Analysis:						
Claims notified	60,912	19,231	41,681	49,537	38,375	11,162
Claims incurred but not reported	35,211	13,345	21,866	31,887	19,559	12,328
Balance at December 31	96,123	32,576	63,547	81,424	57,934	23,490

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

9. Reinsurance assets and insurance contract provisions (cont'd)

(b) Unearned premiums:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Balance at January 1	221,968	132,837	89,131	79,317	40,581	38,736
Premiums written during the year	571,838	356,844	214,994	424,462	296,059	128,403
Premiums earned during the year	(529,729)	(345,512)	(184,217)	(281,811)	(203,803)	(78,008)
Balance at December 31	264,077	144,169	119,908	221,968	132,837	89,131

(c) Gross unearned premiums are analysed as follows:

	2018 $'000	2017 $'000
Motor	76,506	52,459
Property	136,819	126,691
Accident	10,422	12,598
Liability	23,923	21,746
Engineering	11,426	6,327
Marine	4,981	2,147
	264,077	221,968

Process used to determine the assumptions for measuring insurance contracts:

The company adopts a consistent process in the calculation of provisions for insurance contracts. The overriding aim is to establish reserves that are expected to be at least adequate and that there is consistency from year to year. Therefore the reserves are set at a level above the actuarial "best estimate" position. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on post policy periods.

The claims outstanding provision at the reporting date comprises the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses less amounts already paid. This provision is not discounted for the time value of money.

The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available.

The outstanding claims provisions are estimated based on facts known at the date of estimation. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims is estimated using standard actuarial claims projection techniques.

9. Reinsurance assets and insurance contract provisions (cont'd)

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- Changes in the mix of insurance contracts written; and
- Impact of large losses

Incurred but not reported provisions and provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The company purchases a range of excess of loss and other reinsurance contracts with sufficiently high retentions for only relatively few, large claims to be recoverable. The method uses gross incurred but not reported estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the reinsurance asset. Impairment of reinsurance asset is considered separately.

10. Insurance and other receivables

	2018 $'000	2017 $'000
Accrued investment income	10,559	7,966
Premiums receivable	117,694	107,539
Prepaid expenses	-	358
Other receivables	13,881	50,444
	142,134	166,307

Information relating to credit risk management and the maturity profile of insurance receivables is outlined in more detail in note 24(a)(i) and (iii).

11. Short term investments

	2018 $'000	2017 $'000
Loans and receivable		
Corporate Bonds	58,930	-
Treasury Bill	49,387	-
Government of Jamaica Securities J$Bond	-	161,146
Fixed Rate Bond	-	10,205
	108,317	171,351

12. Securities purchased under resale agreements

The fair value of securities held as collateral for securities purchased under resale agreements as at December 31, 2018 was $20,308,000 (2017: $17,904,000).

13. Insurance and other payables

	2018 $'000	2017 $'000
Payables arising from insurance and reinsurance contracts due to other insurance companies	86,245	87,920
Other payables and accrued charges	23,726	12,762
	109,971	100,682

14. Deferred commission income

The analysis of the movement in deferred commission income is as follows:

	2018 $'000	2017 $'000
Balance January 1	21,352	9,332
Commission received during the year	71,094	45,650
Amounts recognised in income during the year	(66,314)	(33,630)
Balance December 31	26,132	21,352

15. Share capital

	2018 $'000	2017 $'000
Authorised:		
25,000,000,000 ordinary shares of no par value		
Stated capital:		
Issued and fully paid as stock units:		
214,000,000 ordinary shares of no par value	485,824	485,824
Less: Share issue costs	(20,284)	(20,284)
	465,540	465,540

16. Capital reserves

This represents contributed capital of $139,340,000 (2017: $139,340,000), from parent company.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

17. Gross premiums written

	2018 $'000	2017 $'000
Motor	154,651	89,015
Property	277,937	239,585
Accident	19,581	20,205
Liability	52,602	35,508
Engineering	29,099	16,113
Marine	37,968	24,036
	571,838	424,462

18. Disclosure of expenses

Profit before taxation is stated after charging:

(a) Related party transactions :

	2018 $'000	2017 $'000
Compensation of key management personnel is as follows:		
Short term employment benefits	30,918	29,089
Pension contributions [see note 4(t)]	1,654	1,575
	32,572	30,664
Directors - Premiums	26,600	18,724

(b) Operating expenses:

	2018	2017
Computer expense and license fees	18,692	22,241
Depreciation and amortisation	5,197	5,130
Directors' emoluments		
Fees	3,450	3,450
Remuneration	20,330	18,150
Salaries and related costs	59,012	42,456
Auditors' remuneration	5,168	3,664
Advertising and promotion	6,374	3,955
Legal and professional fees	2,951	3,180
Motor vehicle expenses	10,945	9,319
Telephone	899	925
Stationery and office supplies	3,076	2,127
Bank interest and other charges	1,031	524
Other administrative expenses	22,974	19,614
	160,099	134,735

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

19. Investment income

	2018 $'000	2017 $'000
Interest income:		
Available-for-sale	6,873	4,496
Loans and receivables	20,585	24,059
	27,458	28,555
Dividend income	4,760	2,185
	32,218	30,740

20. Earning per share

Earning/(loss) per ordinary stock unit, is calculated by dividing the loss attributable to shareholders by the number of stock units in issue during the year.

	2018 $'000	2017 $'000
Profit/(loss) for the year	2,772	(47,862)
Number of ordinary stock unit in issue	214,000	214,000
Earning/ (loss) per share	1 cent	(22 cents)

21. Taxation

(a) The expense is based on the profit for the year adjusted for tax purposes and is made up as follows:

	2018 $'000	2017 $'000
(b) Reconciliation of effective tax rate:		
Profit/(loss) before taxation	2,772	(47,862)
Computed "expected" tax expense at 33⅓%	924	(15,954)
Difference between profit/(loss) for financial statements and tax reporting purposes on:		
Depreciation charge and capital allowances	87	87
Items not allowed for tax purposes	(1,200)	1,244
Tax losses	438	13,651
Unrealised capital foreign exchange gain	(249)	972
Actual tax expense	-	-

21. Taxation (cont'd)

(c) Subject to the agreement of the Commissioner General, Tax Administration Jamaica, tax losses aggregating approximately \$112,755,000 (2017: \$111,442,000) are available for set off against future taxable profits. If unutilised, these can be carried forward indefinitely, however the amount that can be utilised is restricted to 50% of chargeable income (before prior year) in any one year.

(d) The company's shares were listed on the Junior Market of the Jamaica Stock exchange, effective March 15, 2016. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least fifteen (15) years:

Year 1 to 5	100%
Year 5 to 10	50%

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions.

22. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

(a) Overview:

The company's management of insurance risk is a critical aspect of the business. The primary insurance activity carried out by the company is the transfer of risk from persons or entities that are directly subject to the risk, by means of the sale of insurance policies. As such the company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these policies.

The principal types of policy written by the company are as follows:

Liability insurance
Property insurance
Motor insurance

The company manages its insurance risk through its underwriting policy that includes, *inter alia*, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance.

The company actively monitors insurance risk exposures both for individual and portfolio types of risks. These methods include internal risk measurement, portfolio modelling and scenario analyses.

22. Insurance risk management (cont'd)

Risk management objectives and policies for mitigating insurance risk (cont'd):

(a) Overview (cont'd):

Underwriting strategy:

The company seeks to underwrite a balanced portfolio of risks at rates and terms that will produce underwriting results consistent with its long term objectives.

The board of directors approves the underwriting strategy which is set out in an annual business plan and management is responsible for the attainment of the established objective.

Reinsurance strategy:

The company reinsures a portion of the risks it underwrites in order to protect capital resources and to limit its exposure to variations in the projected frequency and severity of losses.

Ceded reinsurance includes credit risk, and the company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The board of directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is addressed in more detail in note 24(a).

(b) Terms and conditions of general insurance contracts:

The table below provides an overview of the terms and conditions of general insurance contracts written by the company and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend.

Type of contract	**Terms and conditions**	**Key factors affecting future cash flows**
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to death, bodily injury, and damage to property.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. The majority of bodily injury claims have a relatively short tail and are settled in full within four years. In general, these contracts involve greater estimation uncertainty.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

22. Insurance risk management (cont'd)

(b) Terms and conditions of general insurance contracts (cont'd):

Type of contract	**Terms and conditions**	**Key factors affecting future cash flows**
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay. The cost of repairing, rebuilding or replacement of assets and/or contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.
Motor	Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.	In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by excessive speeding, the condition of the road network, failure by some motorists to obey traffic signals and an overall increase in the incidence of motor vehicle theft. The number of claims is also correlated with economic activity, which also affects the amount of traffic activity.

22. Insurance risk management (cont'd)

(c) Risk exposure and concentrations of risk:

Liability contracts:

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The company monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten. In pricing contracts, the company makes assumptions that costs will increase in line with the latest available financial and actuarial forecasts.

Property contracts:

The risks relating to property contracts are managed primarily through the pricing process. The company uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the company accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

Motor contracts:

The risks relating to motor contracts are managed primarily through the pricing process. The company monitors and reacts to changes in trends of injury awards, litigation and the frequency of claims.

The following table shows the company's exposure to general insurance risk (based on the carrying value of claims outstanding at the reporting date) per class of business.

	2018						
	Liability $'000	Property $'000	Motor $'000	Engineering $'000	Accident $'000	Marine $'000	Total $'000
Gross	22,932	6,164	38,553	1,650	4,730	22,094	96,123
Net of reinsurance	16,342	986	37,693	326	2,067	6,133	63,547
	2017						
	Liability $'000	Property $'000	Motor $'000	Engineering $'000	Accident $'000	Marine $'000	Total $'000
Gross	5,543	5,760	10,920	6,085	4,686	48,430	81,424
Net of reinsurance	4,801	1,126	9,225	1,439	2,148	4,751	23,490

(d) Claims development:

Claims development information is disclosed in order to illustrate the insurance risk inherent in the company. The top part of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses paid and more information become known about the severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

22. Insurance risk management (cont'd)

(d) Claims development (cont'd):

	Analysis of net claims development Accident year			
	2016	2017	2018	Total
	$'000	$'000	$'000	$'000
Estimate of cumulative claims at end of accident year	4,042	45,786	64,256	-
-one year later	4,687	28,446	-	-
-two years later	3,175	-	-	-
Estimate of cumulative claims	3,175	28,446	64,256	95,877
Cumulative payments to date	-	(12,146)	(20,184)	(32,330)
Net outstanding claims liabilities	3,175	16,300	44,072	63,547

23. Contractual commitments

Lease commitments under operating leases December 31, are payable as follows:

	2018	2017
	$'000	$'000
Within one year	2,448	2,670
Between one year and three years	-	2,448
	2,448	5,118

Payments made during the year ended December 31, 2018 aggregating $$2,670,746 (2017: $2,670,746).

24. Financial risk management

The company has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Market risk

24. Financial risk management (cont'd)

Risk management framework:

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the company's financial risk management framework. The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to established limits. The Chief Executive Officer and Chief Financial Officer are responsible for developing and monitoring the company's financial risk management policies. These persons report regularly to the Board on their activities. The Audit Committee oversees how management monitors compliance with the company's management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The focus of financial risk management for the company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the, risk-adjusted net of taxes investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The Management team is responsible for the asset/liability management policy of the company. This policy details the framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the required monitoring processes. The matching of assets and liabilities is also governed by the existing regulatory framework.

The asset/liability matching process is largely influenced by estimates of the timing of payments. These estimates are revaluated on a regular basis. There are also criteria for ensuring the matching of assets and liabilities as investment markets change.

(a) Credit risk

Credit risk is the risk of financial loss to the company if a counterparty fails to meet its contractual obligations. The company's key areas of exposure to credit risk include:

- debt securities, and cash and cash equivalents;
- amounts due from policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers in respect of payments already made to policyholders.

The nature of the company's exposure to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(i) Management of credit risk

The company manages its credit risk in respect of debt securities by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. The company has a policy of investing only in high quality corporate bonds and government issued debts.

Its exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process. Financial analyses are conducted for significant exposures to individual policyholders or homogenous groups of policyholders.

All intermediaries must meet minimum requirements that are established and enforced by the company's management. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The company also operates a policy to manage its reinsurance counterparty exposures. The company assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations. The impact of reinsurer default is measured regularly and managed accordingly.

Exposure to credit risk

	2018							
	AA $'000	A $'000	B $'000	Ba1 $'000	B3 $'000	Caa1 $'000	Not rated $'000	Total $'000
Financial assets:								
Carrying amount	-	-	-	28,893	224,556	203,284	167,630	624,361
Reinsurance assets (excluding unearned premiums)								
Neither past due nor impaired	19,816	12,760	-	-	-	-	-	32,576
Insurance and other receivables:								
Neither past due nor impaired	-	-	-	-	-	-	99,937	99,937
Past due but not impaired	-	-	-	-	-	-	42,197	42,197
Carrying amount [note 24(a)(iii)]	-	-	-	-	-	-	142,134	142,134

	2017							
	AA $'000	A $'000	B $'000	Ba1 $'000	B3 $'000	Caa1 $'000	Not rated $'000	Total $'000
Financial assets:								
Carrying amount	-	-	148,158	295,183	27,663	-	82,378	525,718
Reinsurance assets (excluding unearned premiums)								
Neither past due nor impaired	2,189	54,477	-	-	-	-	1,268	57,934
Insurance and other receivables:								
Neither past due nor impaired	-	-	-	-	-	-	118,415	118,415
Past due but not impaired	-	-	-	-	-	-	47,892	47,892
Carrying amount [note 24(a)(iii)]	-	-	-	-	-	-	166,307	166,307

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(i) Management of credit risk (cont'd)

The carrying amounts of financial assets and cash and cash equivalents do not include any assets that are either past due or impaired.

The company has no financial assets or reinsurance assets that would have been past due or impaired, whose terms have been renegotiated.

The company does not hold any collateral as security or any credit enhancements, (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

(ii) Concentration of credit risk for insurance and other receivables

The specific concentration of risk from counterparties where receivables for any one counterparty or group of connected counterparties is $3 million or more at the year-end is as follows:

	2018 $'000	2017 $'000
Assurance Brokers Jamaica Limited	4,500	-
Mayberry Investment Limited	-	38,562
Allied Insurance Brokers Limited	11,012	-
CGM Gallagher Insurance Brokers Jamaica Limited	11,675	6,917
JMMB Insurance Brokers Limited	4,353	4,306
Billy Craig Insurance Brokers Limited	9,012	-
Fraser Fontaine & Kong Insurance Brokers Limited	6,916	-
Thwaites Finson Sharpe Insurance Brokers Limited	52,662	66,984
	100,130	116,769

(iii) Aged analysis

The company has insurance and other receivables that are past due but not fully impaired at the reporting date (as indicated by the overall credit risk exposure analysis). An aged analysis of the carrying amounts of insurance and other receivables is presented below.

	2018				
	0 to 45 days $'000	46 to 60 days $'000	61-90 days $'000	More than 90 days $'000	Total $'000
Receivable arising from insurance agents and brokers	51,829	11,676	29,355	21,491	114,351
Insurance premium	1,274	643	391	1,035	3,343
Other receivables	4,595	174	-	19,671	24,440
Carrying amount [Note 24 (a)(i)]	57,698	12,493	29,746	42,197	142,134

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Aged analysis (cont'd)

	2017				
	0 to 45 days	46 to 60 days	61-90 days	More than 90 days	Total
	$'000	$'000	$'000	$'000	$'000
Receivable arising from insurance agents and brokers	13,469	43,458	6,221	35,286	98,434
Insurance premium	1,758	6,493		854	9,105
Other receivables	46,653	358	-	11,757	58,768
Carrying amount [Note 24 (a)(i)]	61,880	50,309	6,221	47,897	166,307

(b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims. The nature of the company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently, the company invests in marketable securities that can be readily realised as its obligations under insurance contracts fall due and in the event of reasonably foreseeable abnormal circumstances. The company also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The company is subject to an early warning ratio imposed by the Financial Services Commission (FSC). The key measure used for assessing liquidity risk is the liquid assets (as defined) to total liabilities ratio. The liquid assets to total liabilities ratio at the end of the year is 111% (2017: 144%). The FSC standard liquid assets to total liabilities ratio is 95%.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

An analysis of the contractual maturities of the company's financial and insurance contract liabilities is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position.

	2018					
		Contractual undiscounted cash flows				
	Carrying Amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5-10 years $'000
Financial liabilities:						
Insurance and other payable	109,971	109,971	109,971	-	-	-
Total financial liabilities	109,971	109,971	109,971	-	-	-
Insurance contract liabilities:						
Claims liabilities	96,123	96,123	73,191	22,932	-	-
	206,094	206,094	183,162	22,932	-	-

	2017					
		Contractual undiscounted cash flows				
	Carrying Amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5-10 years $'000
Financial liabilities:						
Insurance and other payable	100,682	100,682	100,682	-	-	-
Total financial liabilities	100,682	100,682	100,682	-	-	-
Insurance contract liabilities:						
Claims liabilities	81,424	81,424	81,424	-	-	-
	182,106	182,106	182,106	-	-	-

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the company's assets, the amount of its liabilities and/or the company's income. Market risk arises in the company due to fluctuations in the value of liabilities and the value of investments held. The company is exposed to market risk on all of its financial assets.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(c) Market risk (cont'd)

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the company's exposures to market risks and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

Management of market risk

The Investment Committee manages market risks in accordance with its asset/liability management framework. The Committee reports regularly to the Board of Directors on its activities. For each of the major components of market risk the company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the company at the reporting date to each major risk are addressed below.

(i) Interest rate risk

Interest rate risk arises primarily from the company's investments. The company manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

Interest bearing financial assets are primarily represented by long term investments, which have been contracted at fixed and floating interest rates for the duration of the term.

The nature of the company's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior period.

At the reporting date the interest profile of the company's interest-bearing financial instruments was:

	Carrying amount	
	2018	2017
	$'000	$'000
Fixed rate instruments:		
Financial assets	487,652	443,341

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect fair value changes in profit before tax.

An increase or decrease in interest rates at the reporting date would have decreased/(increased) equity as outlined below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

IRONROCK INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Year ended December 31, 2018

24. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Interest rate risk (cont'd)

Sensitivity	Effect on Equity		Effect on Profit	
	Increase	Decrease	Increase	Decrease
	$'000	$'000	$'000	$'000
December 31, 2018				
Fixed rate instruments – J$	1%	1%	2,826	(2,826)
– US$	1%	1%	1,977	(1,977)
December 31, 2017				
Fixed rate instruments – J$	1%	1%	2,667	(2,667)
– US$	1%	1%	865	(432)

(ii) Currency risk

Currency risk is the risk that the market value of or cash flows from financial instruments will vary because of exchange rate fluctuations.

The company incurs foreign currency risk primarily on insurance and reinsurance contracts and investments that are denominated in a currency other than the Jamaica dollar. Such exposure comprises the monetary assets and liabilities of the company that are not denominated in that currency. The principal foreign currency risk of the company is denominated in United States dollars (US$).

At the reporting date, the company's exposure to foreign currency risk is as follows:

	2018	2017
Foreign currency assets:	US$'000	US$'000
Investments	1,570	1,429
Premium receivable	429	527
Cash and cash equivalents	51	78
Interest receivable	47	29
	2,097	2,063
Foreign currency liabilities:		
Accounts payable	440	410
Net foreign currency assets	1,657	1,653

Exchange rates for the US dollar, in terms of Jamaica dollars were as follows:

At December 31, 2018: $127.72
At December 31, 2017: $125.00

24. Financial risk management (cont'd)

(c) Market risk (cont'd)

(ii) Currency risk (cont'd)

Sensitivity analysis

A 2% (2017: 2%) strengthening of the Jamaica dollar against the United States dollar at December 31, would have increase the profit before tax for the year by $4,172,000 (2017: $4,133,000).

A 4% (2017: 4%) weakening of the Jamaica dollar against the United States dollar at December 31, would have increased the profit before tax for the year by $8,344,000 (2017: $8,265,000).

(iii) Equity price risk

Equity price risk arises from available-for-sale equity securities held by the company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the company's investment strategy is to maximise investment returns.

A 10% (2017: 15%) increase or decrease in the bid price at the reporting date would cause an increase or an equal decrease respectively in equity of $8,482,000 (2017: $2,198,700).

25. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The Audit Committee monitors each department to ensure compliance with the company's internal control procedures.

26. Capital risk management

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital test and the possible suspension or loss of its insurance license (see note 2). The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statements of financial position, are:

(i) To comply with the capital requirements set by the regulators of the insurance industry.

(ii) To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits to other stakeholders; and

(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy is managed by the company's management. It is calculated by management, certified by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the company seeks to maintain internal capital adequacy ratios at levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, the company currently uses the Minimum Capital Test (MCT) as stipulated by the insurance regulations.

The regulator requires general insurance companies to achieve a Minimum Capital Test Ratio of 250%. At December 31, 2018, the company's capital ratio was 545% (2017: 666%)

27. Fair value of financial instruments

(a) Definition and measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where a quoted market price is not available, fair value is computed using alternative techniques, making use of available input data; the company uses observable data as far as possible.

Fair values are categorized into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable. The different levels in the hierarchy have been defined as follows:

27. Fair value of financial instruments (cont'd)

(b) Techniques for measuring fair value of financial instruments

Type of financial instrument	Method of estimation of fair value
Government of Jamaica securities	Discounting future cash flows of these securities at the estimated reporting date using yields published by a broker.
Government of Jamaica US$ Global bonds	Prices of bonds at reporting date as quoted by broker/dealer, where available.
Cash equivalents, resale agreements, insurance and other receivables, insurance and other payables, reinsurance assets and insurance contract provisions.	Considered to approximate their carrying values, due to their short-term nature.
Units in unit trusts	Prices quoted by unit trust managers.
Quoted equities and unitised funds	Bid prices published by the Jamaica Stock Exchange and fund managers respectively.
Corporate bonds	Prices of bonds at reporting date as quoted by broker/dealer where available.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This includes financial assets with fair values based on broker quotes and investments in funds with fair values obtained via fund managers.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

There were no transfers between levels during the year.

27. Fair value of financial instruments (cont'd)

(c) Accounting classification and fair values

The tables below analyses financial instruments carried at fair value (which are classified as available for sale) and those not carried at fair value (which are classified as loans and receivables) but for which fair value has been disclosed.

The fair value of certain short-term financial instruments such as cash and cash equivalents securities under resale agreement, premiums and other receivables was determined to approximate their carrying value and are not disclosed in the tables below.

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
			2018		
Available for sale financial assets:					
Units in unit trusts	21,648	-	21,648	-	21,648
Other bonds	141,432	-	141,432	-	141,432
Quoted equities	84,821	84,821	-	-	84,821
	247,901	84,821	163,080	-	247,901
			2017		
Available for sale financial assets:					
Units in unit trusts	11,218	-	11,218	-	11,218
Other bonds	83,832	-	83,832	-	83,832
Quoted equities	14,658	14,658	-	-	14,658
	109,708	14,658	95,050	-	109,708