Key Insurance Company Limited

Financial Statements
31 December 2019

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EXPRESSION OF OPINION

The author's opinion relates to the values of the premium and claim liabilities as summarized in Sections 3.2 and 3.3 of this report. The financial condition of the Company referenced in Section 3.1 below refers to the financial state reflected by the amount, nature and composition of its assets, liabilities and equity, all at a particular point in time.

3.1 Report of the Appointed Actuary

I have examined the financial condition and valued the premium and claim liabilities of Key Insurance Company Limited for its balance sheet as at 31 December 2019 and the corresponding change in the premium and claim liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica.

In my opinion:

i) the methods and procedures used in the verification of the data are sufficient and reliable and fulfil acceptable standards of care;

ii) the valuation of premium and claim liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Financial Services Commission;

iii) the methods and assumptions used to calculate the premium and claim liabilities are appropriate to the circumstances of the Company and of the said policies and claims;

iv) the amount of the premium and claim liabilities represented in the balance sheet of Key Insurance Company Limited makes proper provision for the future payments under the Company's policies and meets the requirements of *The Insurance Act*, *2001* and other appropriate regulations of Jamaica;

v) a proper charge on account of these liabilities has been made in the statement of operations;

vi) there is not sufficient capital available to meet the solvency standards as established by the Financial Services Commission.

Xavier Bénarosch
Fellow, Canadian Institute of Actuaries

Kingston, Jamaica
12 May 2020

Independent auditor's report

To the Members of Key Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Key Insurance Company Limited (the Company) as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

Key Insurance Company Limited's financial statements comprise:

- the balance sheet as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Our 2019 audit was planned and executed having regard to the fact that the operations of the Company were largely unchanged from the prior year. However, subsequent to year end, 65% of the Company's issued shares were acquired by GraceKennedy Limited ("GraceKennedy"). As disclosed in note 2(a), GraceKennedy has prepared a detailed plan which aims to return the Company to profitability and it has formally undertaken to provide the Company with sufficient capital support, for a period of at least one year from the date of issuance of the financial statements, to enable it to meet its minimum capital requirements as determined by the regulators. Therefore, Capital Management, a key audit matter in the prior year, has not been included in the current year as a matter of most significance.

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 our audit addressed the key audit matter
Valuation of incurred but not reported claims for property & casualty contracts *See notes 2(n) (claims incurred but not reported), 3 (b) (estimates of claims liabilities) and 24 of the financial statements for management's disclosures of related accounting policies, judgements and estimates.* As at 31 December 2019, total incurred but not reported reserves amount to $746 million. The methodologies and assumptions utilized to develop incurred but not reported reserves involve a significant degree of judgement. There is generally less information available in relation to these claims, which can result in variability between initial estimates and final settlement. Management engaged an independent actuarial expert to assist in determining the value of claims incurred but not reported. We focused on this area because, underlying these methods are a number of assumptions and judgements relating to the expected settlement amount and settlement patterns of claims which are subject to complex calculations.	We tested the completeness, accuracy and reliability of the underlying data utilized by management, and its external actuarial experts, to support the actuarial valuation. We evaluated the work of management's actuarial expert, including their independence, experience and objectivity. We were assisted by our actuarial expert and assessed the actuarial valuation performed by management's actuary. We considered the suitability of the methodology used in establishing claims liabilities against established actuarial practice and our knowledge and experience. The methodologies and assumptions used by management in establishing the reserves were found to be consistently applied and appropriate in the circumstances.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's 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 the financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 auditor's 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.

Report on other legal and regulatory requirements

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

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

The engagement partner on the audit resulting in this independent auditor's report is Garfield Reece.

PricewaterhouseCoopers

Chartered Accountants
18 May 2020
Kingston, Jamaica

Key Insurance Company Limited

Statement of Comprehensive Income
Year ended 31 December 2019
(expressed in Jamaican dollars unless otherwise indicated

	Note	2019	2018
		$'000	**$'000**
Gross Premiums Written		1,403,690	1,791,567
Change in unearned premium reserve related to current year gross written premiums		156,954	(33,290)
Gross premiums earned		1,560,644	1,758,277
Reinsurance ceded on premiums written during the year		(1,161,382)	(611,963)
Change in current year ceded unearned premiums		(125,098)	1,102
Net Premiums Earned on Premiums written during the current year		274,164	1,147,416
Reinsurance ceded on prior year loss portfolio		(582,795)	-
Net Premiums (Incurred)/ Earned		(308,631)	1,147,416
Change in insurance reserves		23	25,300
Commission on reinsurance ceded		139,202	117,124
Commission on premiums written	8	(173,485)	(167,313)
Claims expense	8	(1,624,714)	(1,123,981)
Reinsurance recoveries	4(b), 8	1,673,993	119,174
Change in unexpired risk reserves		(64,403)	(33,303)
Administration and other expenses	8	(435,477)	(402,116)
Underwriting Loss		(793,492)	(317,699)
Investment income	10	32,900	51,219
Gains on revaluation of investment properties	19	80,000	9,780
Other income	11	114,335	89,206
Loss Before Taxation		(566,257)	(167,494)
Taxation	12	298,778	-
Net Loss		(267,479)	(167,494)
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss:			
Net gain/(loss) on the revaluation of available-for-sale investment securities		28,472	(234)
Gains recycled to profit and loss on disposal of available-for-sale investment securities		(9,331)	(32,910)
Items that will not be subsequently reclassified to profit or loss:			
Revaluation gains on property, plant and equipment		37,221	6,110
Deferred tax charge on revaluation of property, plant and equipment		(17,342)	(1,018)
Other Comprehensive Income		39,020	(28,052)
Total Comprehensive Income for the Year		(228,459)	(195,546)
Loss per Share	28	(0.73) cents	(0.45) cents

Key Insurance Company Limited
Balance Sheet
31 December 2019
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and deposits	13	937,029	714,118
Investment securities	14	241,937	510,092
Due from policyholders, brokers and agents	15	164,229	185,276
Due from reinsurers	16	2,037,052	234,593
Deferred policy acquisition costs		138,703	155,211
Taxation recoverable		219,117	210,429
Other receivables	17	50,475	9,898
Right-of-use asset	32	17,808	-
Investment properties	19	200,150	341,150
Intangible assets	20	3,637	3,957
Property, plant and equipment	21	221,513	194,432
Deferred taxation	23	278,325	-
		4,509,975	2,559,156
LIABILITIES AND EQUITY			
Liabilities			
Other payables	22	64,961	53,531
Lease liability	32	18,950	-
Due to reinsurers		1,604,761	15,314
Deferred taxation	23	-	3,111
Insurance reserves	24	2,160,963	1,598,401
		3,849,635	1,670,357
Equity			
Share capital	25	235,282	235,282
Capital reserve	26	57,371	57,371
Fair value reserves	27	459,469	340,449
(Accumulated deficit)/Retained earnings		(91,782)	255,697
		660,340	888,799
		4,509,975	2,559,156

Approved for issue on behalf of the Board of Directors on 18 May 2020 and signed on its behalf by:

Natalia Gobin-Gunter — Director

Sandra Masterton — Director

Key Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital $'000	Capital Reserve $'000	Fair Value Reserves $'000	Retained Earnings/ Accumulated Deficit) $'000	Total $'000
Balance at 1 January 2018		235,282	57,371	358,721	443,656	1,095,030
Total comprehensive income for the year		-	-	(28,052)	(167,494)	(195,546)
Transfer between reserves:						
Gains on revaluation of investment properties, transferred from retained earnings		-	-	9,780	(9,780)	-
Transactions with owners						
Dividends paid	34	-	-	-	(10,685)	(10,685)
Balance at 31 December 2018		235,282	57,371	340,449	255,697	888,799
Total comprehensive income for the year		-	-	39,020	(267,479)	(228,459)
Transfer between reserves:						
Gains on revaluation of investment properties, transferred from retained earnings		-	-	80,000	(80,000)	-
Balance at 31 December 2019		235,282	57,371	459,469	(91,782)	660,340

Key Insurance Company Limited

Statement of Cash Flows

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Net loss		(267,479)	(167,494)
Adjustments for:			
Amortisation and depreciation	20, 21, 32	27,456	14,287
Gain on sale of property, plant and equipment		-	(534)
Gain on sale of available-for-sale investment securities	11	(9,111)	(74,922)
Gain on sale of investment properties	11	(82,991)	-
Gains on revaluation of investment properties	19	(80,000)	(9,780)
(Gains)/Loss on foreign exchange	11	(8,382)	1,232
Dividend income	10	(1,499)	(6,871)
Interest expense	32	2,203	-
Interest income	10	(31,401)	(44,348)
Taxation	12	(298,778)	-
		(748,982)	(288,430)
Changes in operating assets and liabilities			
Due from policyholders, brokers and agents		21,047	41,486
Deferred policy acquisition costs		16,508	(23,353)
Insurance reserves		562,562	359,974
Due from reinsurers		(1,802,460)	11,551
Due to reinsurers		1,589,449	(65,301)
Other assets		(40,577)	1,954
Other liabilities		11,430	19,663
		(392,023)	57,544
Interest paid		(2,203)	-
Taxation paid		(8,688)	(17,242)
Net cash (used in)/provided by operating activities		(402,914)	40,302
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	21	(5,211)	(9,822)
Acquisition of intangible asset	20	(868)	(1,560)
Acquisition of investment properties	19	-	(1,720)
Proceeds on disposal of property, plant and equipment		-	674
Proceeds on disposal of investment properties		303,991	-
Purchase of investments		(84,285)	(559,381)
Disposal/maturity of investments		380,306	804,116
Interest and dividend received		35,093	49,406
Net cash provided by investing activities		629,026	281,713
Cash Flows from Financing Activities			
Lease principal payments		(11,583)	-
Dividends paid	34	-	(10,685)
Net cash used in financing activity		(11,583)	(10,685)
Net increase in cash and cash equivalents (Page 5)		214,529	311,330

Key Insurance Company Limited

Statement of Cash Flows (Continued)

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Net increase in cash and cash equivalents (Page 4)		214,529	311,330
Effect of changes in exchange rate on cash and cash equivalents		8,382	(269)
Cash and cash equivalents at beginning of year		711,118	400,057
Cash and Cash Equivalents at the End of the Year	13	934,029	711,118

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2019
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

(a) Key Insurance Company Limited (the company) is registered and domiciled in Jamaica. Its registered office is located at 6c Half Way Tree Road, Kingston 5, Jamaica.

(b) The company is licensed to operate as a general insurer in Jamaica, under the Insurance Act, 2001. Its principal activity is the underwriting of motor, commercial and personal property and casualty insurance.

(c) As at 31 December 2019 and 2018, the company's shares were listed on the Junior Market of the Jamaica Stock Exchange (JSE). As detailed in Note 35 to the financial statements, subsequent to the year end, 65% of the company's share capital was acquired by GraceKennedy Financial Group. On April 9, 2020 the company's shares were then migrated to the JSE's main market.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS),and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment properties and certain items of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The company has achieved the following results, which may challenge its use of the going concern basis of accounting in the preparation of these financial statements.

- A net loss of $267,479,000 (2018 - $167,494,000);
- An accumulated deficit of $91,782,000;
- Negative cash flows from operating activities of $402,914,000; and
- A Minimum Capital Test Ratio of 186.75% (2018 – 112.55%), which is below the regulatory requirements of 250%.

As disclosed in Note 35 to the financial statements, subsequent to the year-end, the company, became a subsidiary of GraceKennedy Financial Group a subsidiary of GraceKennedy Limited, a company listed on the JSE main market. GraceKennedy Limited has long standing experience in the general insurance market, having successful general insurance operations in Jamaica and the Eastern Caribbean. A detailed plan to return the company to profitability has been prepared by GraceKennedy. The plans include:

- Restructuring its insurance portfolio to minimize the company's underwriting risk;
- Restructuring of its reinsurance programs;
- Leveraging operational efficiencies within the GraceKennedy network; and
- Making certain strategic investments.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The projections for the company based on the aforementioned plans show a return to profitability in 2021, and the company being in compliance with the MCT requirement. GraceKennedy has also indicated that, where and if necessary, they are prepared to inject the capital necessary to ensure the company achieves it MCT. Based on its audited financial statements for 31 December 2019, GraceKennedy Limited is well capitalized and has the ability to make such an investment.

On the basis of the foregoing, the company's financial statements are therefore prepared on the going concern basis.

Accounting pronouncements effective in 2019 which are relevant to the company's operations
Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that the following are relevant to its operations:

IFRS 16 Leases

IFRS 16, which is effective 1 January 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard removed the requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets (right-of-use assets) and lease liabilities on the statement of financial position for most leases. Lessees will also now separately recognise interest expense on the lease liability and depreciation expense on the right-of-use asset in the statement of profit or loss.

Lessor accounting is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The company adopted IFRS 16 on 1 January 2019 and elected the modified retrospective approach transition option and the practical expedients permitted under this approach. Under the modified retrospective approach, the company elected the option to measure the right-of-use asset as the lease liability adjusted for prepaid or accrued payments and the company did not restate comparative amounts.

The company has completed its assessment of the potential impact of adopting IFRS 16 on its financial statements. The most significant impact identified by the company was to recognise new assets and liabilities for its operating leases of office space. In addition, the nature of expenses related to these leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

On the date of initial application of IFRS 16, the company recognised right-of-use assets and lease liabilities of approximately $30,533,000 respectively. See Note 32 for additional disclosures related to the impact of adoption.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements effective in 2019 which are relevant to the company's operations (continued)

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements. This adoption did not have an impact on the financial statements.

Annual improvements to IFRS 2015 - 2018 Cycle – Amendments to IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019). The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The was no significant impact from the adoption of these amendments.

Accounting pronouncements that are not yet effective, and have not been early adopted

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been issued which are mandatory for the company's accounting periods beginning on or after 1 January 2020 or later periods, but were not effective at the date of the statement of financial position, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

Key Insurance Company Limited

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements that are not yet effective, and have not been early adopted (continued)

IFRS 17, 'Insurance contracts', (effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of discounted probability – weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

The company has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect. This includes amendments resulting from the IASB's ongoing 'Improvements to IFRS' project.

Amendments to IAS 1 and IAS 8 on the definition of material effective annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The company is currently assessing the impact of future adoption of the new amendments on its financial statements.

Amendments to IAS 1, 'Presentation of financial statements' effective annual periods beginning on or after 1 January 2020. These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The company is currently assessing the impact of future adoption of the new amendments on its financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New, revised and amended standards and interpretations not yet adopted

IFRS 9, Financial Instruments.

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The financial assets held by the company include debt instruments and deposits currently classified as available for sale and measured at fair value through other comprehensive income (FVOCI) which appear to meet the conditions for classification cost under IFRS 9, as they satisfy the solely payments of principal and interest (SPPI) criteria, and they are part of a portfolio from which the company sells, from time to time.

There will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Company has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the company's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The company has exercised the option to adopt the temporary exemption from applying IFRS 9 until 2023 given to companies whose activities are predominantly connected with insurance due to the upcoming Amendment to IFRS 4 'Insurance contracts', as discussed below.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform effective annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.

The company has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect. This includes amendments resulting from the IASB's ongoing 'Improvements to IFRS' project.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New, revised and amended standards and interpretations not yet adopted (continued)

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'.

These amendments address the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. These amendments to IFRS 4 provide two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard IFRS 17 is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2023. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

The company has undertaken a detailed assessment of the classification and measurement of its financial assets in an effort to determine whether the eligibility criteria for temporary exemption from IFRS 9 have been met. In order to qualify for exemption, a company must not have previously implemented any element of IFRS 9 and company's activities must not have be predominantly connected with insurance.

A company's activities are predominantly connected with insurance if, and only if its insurance activities are significant and if the predominance ratio (liabilities arising from insurance contracts within the scope of IFRS 4 at 31 December 2015 as a percentage of total liabilities at 31 December 2015) is:

(i) Greater than 90 per cent; or
(ii) Less than or equal to 90 per cent but greater than 80 per cent, and the company does not engage in a significant activity unconnected with insurance.

The predominance ratio to support the temporary exemption has been determined as followed:

	2015 **$'000**
Insurance contracts	930,707
Reinsurance payables	96,936
(A) *Liabilities arising from activities related to insurance*	1,027,643
(B) *Total liabilities*	1,068,288
Predominance Ratio(A/B)	96%

Overall having satisfied the eligibility criteria of not having applied any version of IFRS 9, and the entity predominance ratio being 96%, with no existence of any significant activity that is unrelated to insurance the company has opted to apply the deferral approach and therefore apply the temporary exemption allowed by IFRS 9.

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2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New, revised and amended standards and interpretations not yet adopted (continued)

IFRS 9, SPPI Assessment

This is an assessment of a financial instrument's contractual cash flows characteristics to determine whether contractual cash flows are SPPI on the principal amount outstanding on specified dates i.e. the contractual cash flows are consistent with a basic lending arrangement. The SPPI test is one of the criteria that must be met for a debt instrument to be subsequently measured at amortised cost or FVOCI. The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. The company undertakes a comprehensive review of financial asset documentation and the terms of securities to assess what the entity is being compensated for and whether there is a basic amortization arrangement. As such both Government and Corporate investments are considered to be FVOCI having satisfied the SPPI criteria, and also because they are part of a portfolio that the company holds to sell, from time to time. An analysis of the company's investments which satisfy the SPPI test is shown below.

Fair values for the following investments were determined by reference to published price quotations in an active market (classified as level 1) or valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data (classified as level 2 in the fair value hierarchy) – see table above for further information.

	2019 $'000	2018 $'000	Change $'000
Debt securities with contractual terms that are SPPI:			
Available for sale investment:			
Government of Jamaica - JMD Bond	138,705	114,706	24,257
Corporate - JMD bonds	33,819	378,094	(344,275)

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Jamaican dollars, which is also the company's functional currency.

Translations and balances

Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies during the year are converted at the rates of exchange ruling on the dates of those transactions. Gains and losses arising from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the statement of comprehensive income.

(c) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

Financial assets

The company's financial assets comprise investment securities, insurance receivables and cash and short term investments.

Investment securities

The company classifies its investment securities as available-for-sale. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Purchases and sales of investments are recognised on the trade date - the date that the company commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in income as 'gains and losses on available-for-sale investment securities'. Interest on available-for-sale securities, calculated using the effective interest method, is recognised in profit or loss in the statement of comprehensive income.

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Investment securities (continued)
The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset may be considered to be impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market rate for a similar financial asset. The recoverable amount of a debt instrument carried at amortised cost is the present value of expected future cash flows discounted at the original rate of interest of the financial asset.

Premiums receivable
Premiums receivable are carried at the original negotiated invoice amount less provision made for impairment of these receivables. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. Debts that are known to be uncollectible are written off during the year in which they are identified.

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

Financial liabilities
The company's financial liabilities are initially measured at fair value, net of transactions costs and are subsequently measured at amortised cost using the effective interest method. At the balance sheet date the following items were classified as financial liabilities: payables, bank overdraft, short term loans and amounts due to reinsurers, and claims outstanding.

The fair value of the company's financial instruments is discussed in Note 6.

(d) Securities purchased under agreements to resell
Securities purchased under agreement to resell (reverse repurchase agreements) are treated as loan assets and they mature within twelve months. The difference between the purchase and resale price is treated as interest and accrued over the life of the arrangements using the effective yield method.

(e) Reinsurance ceded
The company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses, loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet.

(f) Deferred policy acquisition costs
The cost of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subject to recoverability testing.

2. Significant Accounting Policies (Continued)

(g) Investment properties

Investment properties comprise land owned by the company, which is held for long-term capital appreciation and is not used in the provision of services. Investment properties are treated as a long-term investments and are carried at fair value, representing open market value determined annually by external valuators. Changes in fair values are recorded in profit or loss.

(h) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation based on annual valuations by external independent valuers, less subsequent depreciation of buildings. All other property, plant and equipment are carried at cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

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

Depreciation is calculated on the straight-line basis by reference to costs, at rates estimated to write off the relevant assets, net of estimated salvage value, over their estimated useful lives.

Annual depreciation rates are as follows:

Buildings	2½%
Computer equipment	20%
Motor vehicles	20%
Furniture and fixtures	10%

Land is not depreciated.

Leasehold improvements are amortised over the period of the lease.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

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2. Significant Accounting Policies (Continued)

(i) Intangible assets
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives of five years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(j) Impairment of long-lived assets
Property, plant and equipment and other long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

(k) Leases (Financial Year ended 31 December 2018)
Leases of property, plant and equipment where the lessor retains a significant portion of the risks and rewards are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor are charged to income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

As noted above the company adopted IFRS 16 at 1 January 2019. Disclosures are made in Note 33.

(l) Provisions
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

(m) Payables
These amounts are recognised at cost.

(n) Insurance reserves
Under the Insurance Regulations, 2001, the company is required to actuarially value its insurance reserves annually. Consequently the unexpired risk provision, claims incurred but not reported and the provision for adverse deviation have all been independently actuarially determined. The actuary also reviews management's estimate of the claims outstanding and the unearned premium reserve.

2. Significant Accounting Policies (Continued)

(n) Insurance reserves (continued)

Unearned premium reserve
This reserve represents that proportion of premiums written in respect of risks to be borne subsequent to the year end, under contracts entered into on or before the balance sheet date, and is amortised to income on a straight line basis over the life of the insurance contract. The reserve aims to match the expiry of exposure with the earning of premium. The earned portion of premiums received and receivable is recognised as revenue.

Unearned commission
The commission income relating to premium ceded on reinsurance contracts is deferred over the unexpired period of risk carried.

Unexpired risk reserve
A provision is made to cover the estimated value of claims, whether reported or unreported, attributable to the unexpired periods of policies in force at the balance sheet date, in excess of the related unearned premium reserve.

Claims outstanding
A provision is made to cover the estimated cost of settling claims arising out of events, which occurred by the year end less amounts already paid in respect of those claims. The provision is estimated by management on the basis of claims admitted and intimated.

Claims incurred but not reported (IBNR)
The reserve for IBNR claims has been calculated by an independent actuary using the Loss Development Method and Bornhuetter-Ferguson Projection Method.

The Loss Development Method is where the current reported incurred and paid claims are projected to their ultimate values by accident year based on historical incurred and paid development patterns.

The Bornhuetter-Ferguson Projection Method gives some weight to historically based development patterns and the balancing weight to historically based expected ultimate loss ratios.

Provision for adverse deviations
This provision reflects considerations relating to the company's claims practices, the underlying data, and the nature of the lines of business and seeks to provide for any unforeseen adverse development in claims liabilities.

Liability adequacy test
At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the policy liabilities, net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows are compared to the carrying amount of policy liabilities and any deficiency is immediately charged to the profit or loss account.

2. Significant Accounting Policies (Continued)

(o) Income taxes

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

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

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

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

(p) Employee benefits

Pension obligations

The company participates in a defined contribution plan which is funded by payments from employees and the company to a trustee-administered fund.

The defined contribution plan is a pension plan under which the company pays fixed contributions into a separate fund. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The contributions paid by the company are charged to profit or loss in the period to which they relate.

Vacation

Employee entitlement to annual leave is recognised when it accrues to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Termination benefits

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

2. Significant Accounting Policies (Continued)

(q) Revenue recognition

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

Sale of insurance services

Gross premiums written represent amounts invoiced for insurance contracts that have been accepted by the company during the year. They are recognised on a pro-rata basis over the life of the policies written. The company uses reinsurance contracts to manage the risk associated with these insurance policies. Reinsurance ceded represent amounts contracted to reinsurers during the year with respect to reinsurance contracts entered into by the company. Reinsurance premiums ceded are deducted from gross premiums written and are recognized on the same basis as gross written premium.

Commissions receivable on reinsurance of risks is credited to revenue when premiums are earned.

Interest income

Interest income is recognised in the profit or loss in the statement of comprehensive income for all interest bearing instruments, using the effective yield method.

(r) Taxation recoverable

Taxation recoverable represents tax withheld from interest earned on investments net of income tax liability.

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director who makes strategic decisions.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has made no judgements which it believes present a significant risk of material misstatement to the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates of claims liabilities

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

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

Recoverability of deferred tax assets in relation to tax losses

At the end of the financial year, the company has a deferred tax asset of $278,325,000 in relation to tax losses carried forward. The company is of the view that it will generate sufficient profits in the future to enable utilisation of these tax losses, and consequently, recovery of the deferred tax asset. In the future, should the company not generate sufficient future profits to utilise these losses, there will be an adjustment to the carrying value of the deferred tax asset, which would be recognised as a deferred tax charge in arriving at the company's net profit.

4. Insurance and Financial Risk Management

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

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

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

(i) Finance Department

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

(ii) Audit Committee

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

4. Insurance and Financial Risk Management (Continued)

The most significant types of risk faced by the company are insurance risk, reinsurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

There has been no significant change to the company's exposure to insurance and financial risks, or the manner in which it manages and measures these risks.

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

(a) Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

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

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

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

4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

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

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

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

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

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

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Management sets policy and retention limits. The policy limit and maximum net retention of any one risk for each class of insurance for the year are as follows:

	2019				2018			
		Policy Limit '000		Maximum Net Retention '000		Policy Limit '000		Maximum Net Retention '000
Commercial property –								
Fire and consequential loss	US$	6,000	US$	200	US$	6,000	US$	200
Boiler and machinery	US$	1,125	US$	281	US$	1,125	US$	281
Miscellaneous accident	US$	160	US$	64	US$	160	US$	64
Bankers blanket	US$	300	US$	120	US$	300	US$	120
Contractor's All Risk	US$	1,500	US$	375	US$	1,500	US$	375
Liability	US$	2,500	US$	750	US$	2,500	US$	750
Travel	US$	150	US$	15	US$	150	US$	15
Other	US$	50	US$	20	US$	50	US$	20
Motor	J$	70,000	J$	35,000	J$	70,000	J$	15,000
Pecuniary loss -								
Fidelity	US$	480	US$	192	US$	480	US$	192
Personal accident	US$	10,000	US$	500	US$	10,000	US$	500

Sensitivity Analysis of Actuarial Liabilities

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. A summary of the actuarial assumptions is disclosed in Note 24.

Development Claim Liabilities

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

Amounts shown in the table as excess or deficiency represent the percentage difference between the estimate of the claims liability (amounts paid to date plus amounts currently in reserve) at the end of each accident year, when compared to amounts initially reserved at the end of the accident year when the claim first arose. For each accident year, ratios are calculated on losses occurring during the year, and in all years prior to that accident year.

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development claim liabilities (continued)

		2015	**2015 and prior**	**2016**	**2016 and prior**	**2017**	**2017 and prior**	**2018**	**2018 and prior**	**2019**	**2019 and prior**
2015	Paid during year	63,102	187,739								
	UCAE, end of year	115,220	337,523								
	IBNR, end of year	121,071	160,200								
	Ratio: excess (deficiency)										
2016	Paid during year	89,993	153,208	106,631	259,839						
	UCAE, end of year	65,572	163,360	145,482	308,842						
	IBNR, end of year	43,454	160,200	6,454	166,654						
	Ratio: excess (deficiency)	(25.43%)	4.21%								
2017	Paid during year	33,261	54,471	156,941	211,412	159,207	370,619				
	UCAE, end of year	21,407	65,885	79,114	144,999	155,770	300,768				
	IBNR, end of year	44,997	159,988	6,666	166,654	16,942	183,596				
	Ratio: excess (deficiency)	19.53%	12.89%	(93.58%)	(16.51%)						
2018	Paid during year	13,750	30,258	51,035	81,293	290,505	371,798	300,941	672,739		
	UCAE, end of year	13,444	50,120	62,989	113,109	89,127	202,236	294,423	496,659		
	IBNR, end of year	44,997	159,988	6,666	166,654	16,942	183,596	131,345	314,941		
	Ratio: excess (deficiency)	19.53%	9.98%	(82.73%)	(20.39%)	(129.62%)	(56.42%)				
2019	Paid during year	13,750	30,258	51,035	81,293	290,505	371,798	300,941	672,739	290,370	963,109
	UCAE, end of year	13,444	50,120	62,989	113,109	89,127	202,236	294,423	496,659	(282,443)	214,216
	IBNR, end of year	44,997	159,987	6,666	166,654	19,942	183,596	131,345	314,941	18,254	333,195
	Ratio: excess (deficiency)	(31.84%)	3.90%	(116.32%)	(37.49%)	(297.82%)	(133.18%)	(70.68%)	(82.89%)		

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Risk exposure and concentrations of risk:

The following table shows the company's exposure to general insurance risk (based on the carrying value of insurance provisions at the reporting date) per major category of business. The company has its largest risk concentration in the motor line.

	2019				
	Liability	**Property**	**Motor**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Gross Claims liability (not including IBNR)	24,794	15,565	702,885	16,916	760,160
Net Claims liability (not including IBNR)	7,228	2,284	203,668	1,036	214,216
Gross IBNR, PFAD & ULAE	13,021	8,174	716,393	8,883	746,471
Net IBNR, PFAD & ULAE	3,529	2,215	325,043	2,408	333,195
Gross and Net Unexpired Risk Reserve	4,467	2,804	131,891	3,047	142,209

	2018				
	Liability	**Property**	**Motor**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Gross Claims liability (not including IBNR)	21,182	15,559	489,459	8,719	534,919
Net Claims liability (not including IBNR)	6,217	2,407	487,402	633	496,659
Gross IBNR, PFAD & ULAE	(193)	(1,984)	312,733	(450)	310,106
Net IBNR, PFAD & ULAE	151	1,551	312,887	352	314,941
Gross and Net Unexpired Risk Reserve	1,748	17,928	54,063	4,067	77,806

4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

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

Risk transfer may be done via a treaty or facultatively. Both reinsurance treaties and facultative arrangements are done in order limit the financial exposure that may arise from claims and also to stabilize the company's loss ratios.

For risks written in the property department, the company uses both proportional and non-proportional treaties otherwise called excess of loss treaties. The proportional treaties used are referred to as 'quota share' and 'first surplus'. For these types of treaties, a fixed percentage of the sum insured and premium is ceded to the treaty reinsurer who will in the event of a claim pay the same share of the claim.

The company purchases catastrophe excess of loss reinsurance to protect the portion of risks it retains to its net account from the accumulation and severity of losses that can occur after a catastrophe e.g. an earthquake or hurricane.

The company also buys motor excess of loss to protect against the frequency of losses. The treaty participates on each and every motor claim which exceeds the deductible up to the treaty limit. Facultative reinsurance is used by insurance companies on a risk by risk basis. The most common reason for facultative reinsurance is to reduce the exposure one has on a particular risk. Facultative reinsurance can be done locally or overseas. The insurance company, which obtains the initial contract, will seek another insurance company to accept a set percentage of the sum insured for which the company accepting the business is a paid premium. If there is a claim, the facultative reinsurer will then pay its portion of the claim to the company from which the business was obtained.

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

(i) The maximum exposure on insurance policies for outward facultative reinsurance arrangement for motor vehicles and non-motor business is $31 million and $72 million respectively (2018 - $31 million and $135 million) per any one loss.

Key Insurance Company Limited

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4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk (continued)

(ii) The company insures with several reinsurers. Of significance are Munich Re, Odyssey Re, Korean Re, GIC Re, Sirius International (UK) Scor Re and QBE Re who take up 5% to 100% of their treaty arrangements. All other reinsurers carry lines under 5%. These include National Assurance, New Indian Assurance and United India Assurance. The financial analysis of reinsurers, which is conducted at the board level, produces an assessment categorised by a Standard & Poors (S&P) rating (or equivalent when not available from S&P). They are as follows –

	Ratings
Munich Re	AA-
Hanover Re	AA-
Everest Re	A+
Odyssey Re	A-
Korean Re	A
GIC Re	A -
Sirius International (UK)	A-
Scor Re	AA-
QBE Re	A+
New India Assurance	A-

Reinsurance recoveries recognised during the period are as follows:

	2019	**2018**
	$'000	**$'000**
Property	23,438	33,971
Motor	1,632,406	55,003
Engineering	102	15,127
Accident	8,855	7,960
Liability	9,192	7,113
	1,673,993	119,174

During the financial year, the company executed a quota share reinsurance treaty with Hanover Re, which reinsured 75% of losses on aspects of its motor portfolio. In addition to providing reinsurance for business written during the year, the contract provided reinsurance for losses at 31 December 2018 (loss portfolio transfer), as well as losses developing from unexpired risks (unearned premium) at 31 December 2018. Premiums incurred for both the 2018 losses and unexpired risks were incurred and recorded in the current year's financial statements.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk

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

(i) Credit risk

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

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

Credit review process

Management of the company regularly assesses the ability of customers, brokers and other counterparties to meet repayment obligations.

(i) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Management assesses the creditworthiness of the approved reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(ii) Premium and other receivables

Management utilises periodic reports to assist in monitoring any premiums that are overdue. Where necessary, cancellation of policies is effected for amounts deemed uncollectible.

(iii) Investments, bank and deposit balances

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

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Aged analysis of premium receivables past due but not impaired

Premium receivables that are less than two months past due are not considered impaired. The following premium receivables were past due but not impaired and relate to a number of customers for whom there is no recent history of default. The aged analysis of these receivables is as follows:

	2019 $'000	2018 $'000
61 to 120 days	45,214	63,269
120 to 150 days	21,988	26,558
More than 150 days	26,522	10,102
	93,724	99,929

Premium receivables
The credit exposure for premium receivables is $174,766,000 (2018 - $185,276,000). Movement in allowance for doubtful debts

	2019 $'000	2018 $'000
Balance at beginning of year	14,345	12,479
Provision for the year	10,196	2,466
Amounts written off during the year	(14,004)	(600)
Balance at end of year	10,537	14,345

Debt securities

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

	2019 $'000	2018 $'000
Government of Jamaica	138,705	114,706
Corporate	33,819	378,094
	172,524	492,800

The maximum credit exposure arising from the company's other financial assets equals their carrying amounts on the balance sheet.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

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

Liquidity risk management process

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

(i) Monitoring future cash flows and liquidity on an on-going basis;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Optimising cash returns on investment;

(iv) Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

(v) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections monthly. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

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

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

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities and insurance liabilities cash flows

The table below presents the undiscounted cash flows of the company's financial assets and liabilities and insurance liabilities, as well as the company's insurance assets and liabilities at the balance sheet date, based on contractual repayment obligations.

	2019					
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
Financial and Insurance Assets						
Cash and deposits	612,410	327,408	-	-	-	939,818
Investment securities	4,315	1,886	39,012	39,000	276,832	361,045
Due from policyholders, brokers and agents	164,229	-	-	-	-	164,229
Due from reinsurers	410,576	-	50,128	1,576,348	-	2,037,052
Other receivables	50,475	-	-	-	-	50,475
	1,242,005	329,294	89,140	1,615,348	276,832	3,552,619
Financial and Insurance Liabilities						
Other payables	56,451	-	-	-	-	56,451
Lease liability	1,025	2,053	9,237	7,874	-	20,189
Due to reinsurers	26,283	-	-	1,578,478	-	1,604,761
Claims outstanding	760,160	-	-	-	-	760,160
Unearned premiums	480,070	-	-	-	-	480,070
Unearned commission	32,053	-	-	-	-	32,053
IBNR, PFAD & UCAE	746,471	-	-	-	-	746,471
Unexpired risk reserve	142,209	-	-	-	-	142,209
	2,244,722	2,053	9,237	1,586,352	-	3,842,564
Liquidity gap	(1,002,717)	327,241	79,903	28,996	276,832	(289,745)

Key Insurance Company Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	2018					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial and Insurance Assets						
Cash and deposits	519,802	194,316	-	-	-	714,118
Investment securities	5,565	-	84,396	111,270	490,106	691,337
Due from policyholders, brokers and agents	185,276	-	-	-	-	185,276
Due from reinsurers	234,593	-	-	-	-	234,593
Other receivables	9,898	-	-	-	-	9,898
	955,134	194,316	84,396	111,270	490,106	1,835,222
Financial and Insurance Liabilities						
Other payables	45,612	-	-	-	-	45,612
Due to reinsurers	15,314	-	-	-	-	15,314
Claims outstanding	47,345	83,222	206,988	173,009	24,355	534,919
Unearned premiums	637,024	-	-	-	-	637,024
Unearned commissions	38,546	-	-	-	-	38,546
IBNR, PFAD & UCAE	310,106	-	-	-	-	310,106
Unexpired risk reserve	77,806	-	-	-	-	77,806
	1,171,753	83,222	206,988	173,009	24,355	1,659,327
Liquidity gap	(216,619)	111,094	(122,592)	(61,739)	465,751	175,895

Assets available to meet all of the liabilities and to cover financial liabilities include cash and short term deposits, and investment securities. The company is also able to meet unexpected net cash outflows by accessing additional funding sources from other financial institutions.
Equities are not included.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Finance Department which monitors the price movement of financial assets on the local market.

Currency risk

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

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

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

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

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

		2019	
	Jamaican $	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial and Insurance Assets			
Cash and deposits	723,436	213,593	937,029
Investment securities	241,937	-	241,937
Due from policyholders, brokers and agents	132,539	31,690	164,229
Due from reinsurers	2,028,249	8,803	2,037,052
Other receivables	50,475	-	50,475
Total financial assets	3,176,636	254,086	3,430,722
Financial and Insurance Liabilities			
Other payables	64,961	-	64,961
Lease liability	18,950	-	18,950
Due to reinsurers	1,596,968	7,793	1,604,761
Claims outstanding	750,228	9,932	760,160
Unearned premiums	427,250	52,820	480,070
Unearned commissions	32,053	-	32,053
IBNR, PFAD & ULAE	746,471	-	746,471
Unexpired risk reserve	142,209	-	142,209
Total financial liabilities	3,779,090	70,545	3,849,635
Net financial position	(602,454)	183,541	(418,913)

Key Insurance Company Limited

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

	2018		
	Jamaican $	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial and Insurance Assets			
Cash and deposits	602,805	111,313	714,118
Investment securities	342,307	167,785	510,092
Due from policyholders, brokers and agents	160,710	24,566	185,276
Due from reinsurers	221,183	13,410	234,593
Other receivables	9,898	-	9,898
Total financial assets	1,336,903	317,074	1,653,977
Financial and Insurance Liabilities			
Other payables	53,531	-	53,531
Due to reinsurers	3,194	12,120	15,314
Claims outstanding	519,783	15,136	534,919
Unearned premiums	587,109	49,915	637,024
Unearned commissions	38,546	-	38,546
IBNR, PFAD & ULAE	310,106	-	310,106
Unexpired risk reserve	77,806	-	77,806
Total financial liabilities	1,551,529	77,171	1,667,246
Net financial position	(253,172)	239,903	(13,269)

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Foreign currency sensitivity

The following table indicates the currency to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a revaluation of 4% and devaluation of 6% (2018 revaluation of 2% and a devaluation of 4%) in foreign currency rates. The sensitivity analysis includes cash and short term investments, investment securities and amounts due from policyholders, brokers and agents, and US-dollar denominated liabilities.

	Change in Currency Rate %	Effect on Profit before Taxation $'000	Change in Currency Rate %	Effect on Profit before Taxation $'000
	2019		2018	
United States Dollar				
Revaluation of JMD	4%	(7,342)	(2%)	(4,798)
Devaluation of JMD	6%	11,012	4%	9,596

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk. The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the Finance Department.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)
Interest rate risk (continued)

The following tables summarise the company's exposure to interest rate risk at balance sheet date. It includes financial instruments as well as insurance assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The tables exclude amounts for unearned premiums which are non-rate sensitive.

2019

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years	Non-Interest Bearing $'000	Total $'000
Cash and deposits	610,070	326,959	-	-		-	937,029
Investment securities	-	-	31,402	-	137,750	72,785	241,937
Due from policyholders, brokers and agents	-	-	-	-	-	164,229	164,229
Due from reinsurers	-	-	-	-	-	2,037,052	2,037,052
Other receivables	-	-	-	-	-	50,475	50,475
	610,070	326,959	31,402	-	137,750	2,324,541	3,430,722
Financial and Insurance Liabilities							
Other payables	-	-	-	-	-	64,961	64,961
Lease liability	952	1,887	9,422	6,689	-	-	18,950
Due to reinsurers	-	-	-	-	-	1,604,761	1,604,761
Claims outstanding	-	-	-	-	-	760,160	760,160
Unearned premiums	-	-	-	-	-	480,070	480,070
Unearned commissions	-	-	-	-	-	32,053	32,053
IBNR, PFAD & ULAE	-	-	-	-	-	746,471	746,471
Unexpired risk reserve	-	-	-	-	-	142,209	142,209
Total financial liabilities	952	1,887	9,422	6,689	-	3,830,685	3,849,635
Total interest repricing gap	609,118	325,072	21,980	(6,689)	137,750	(1,506,144)	(418,913)

Key Insurance Company Limited

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	2018						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 $'000**	**1 to 5 Years $'000**	**Over 5 Years**	**Non-Interest Bearing $'000**	**Total $'000**
Cash and deposit	519,802	194,316	-	-	-	-	714,118
Investment securities	-	-	81,912	106,826	298,497	22,857	510,092
Due from policyholders, brokers and agents	-	-	-	-	-	185,276	185,276
Due from reinsurers	-	-	-	-	-	234,593	234,593
Other receivables	-	-	-	-	-	9,898	9,898
	519,802	194,316	81,912	106,826	298,497	452,624	1,653,977
Financial and Insurance Liabilities							
Other payables	-	-	-	-	-	53,531	53,531
Due to reinsurers	-	-	-	-	-	15,314	15,314
Claims outstanding	-	-	-	-	-	534,919	534,919
Unearned premiums	-	-	-	-	-	637,024	637,024
Unearned commissions	-	-	-	-	-	38,546	38,546
IBNR, PFAD & ULAE	-	-	-	-	-	310,106	310,106
Unexpired risk reserve	-	-	-	-	-	77,806	77,806
Total financial liabilities	-	-	-	-	-	1,667,246	1,667,246
Total interest repricing gap	519,802	194,316	81,912	106,826	298,497	(1,214,622)	(13,269)

Interest rate sensitivity/ Fair value price risk

Interest rate sensitivity measures the sensitivity of the financial assets and liabilities of the company to a reasonable possible change in interest rates, with all other variables held constant, on the income in statement of comprehensive income and in other comprehensive income.

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate sensitivity/Fair value price risk

The company is exposed to equity and bond fair value price risk because of investments held by the company classified as available-for-sale. To manage its price risk arising from investments in equity securities, the company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the company.

The company's investments in quoted equity securities are publicly traded on the Jamaica Stock Exchange.

The following table indicates the sensitivity to a reasonably possible change in prices of equity and bond securities, with all other variables held constant on other comprehensive income.

There is no impact on the profit or loss for investment securities as none are variable rate instruments or are classified at fair value through profit or loss. The sensitivity of other comprehensive income is the effect of the assumed fair value changes of investment securities classified as available-for-sale.

	Effect on Other Comprehensive Income 2019 $'000	Effect on Other Comprehensive Income 2018 $'000
Percentage change equity values:		
10% (2018 - 10%) increase	6,941	1,729
10% (2018 - 10%) decrease	(6,941)	(1,729)
Change in basis points - bond:		
JMD/USD +100 (2018: JMD/USD +100)	(11,740)	(1,224)
JMD/USD -100 (2018: JMD/USD -100)	13,370	1,256

5. Capital Management

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

(a) To comply with the capital requirements set by the regulators, the FSC;

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

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

(expressed in Jamaican dollars unless otherwise indicated)

5. Capital Management (Continued)

Capital adequacy is managed and monitored by the company's management. It is calculated by the Finance Director, certified by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

Available capital includes issued capital, retained earnings, fair value reserves and capital reserves amounting to $660,340,000 (2018 - $888,799,000) at the end of the year.

The primary measure used to assess capital adequacy is the minimum capital test (MCT) which is used by the FSC to determine the solvency of the company. The minimum standard stipulated by the section 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) regulations, 2011 is that a general insurance company shall have a minimum MCT percentage of 250% (2018 – 250%). This information is required to be filed with the FSC on an annual basis. Under Section 15(1) of the Insurance Act, 2001, the FSC may cancel the registration of a general insurance company if it is considered to be insolvent.

In January 2017, the FSC announced a measure to allow for relaxation of the required MCT ratio from 250% to 150% for a period of two years. The measure will reduce the amount of capital that the general insurance industry would need to hold for the purpose of meeting capital adequacy requirements. The main reason for the reduction of an insurer's MCT ratio should be due to the reorganization of the company's investment portfolio to pursue local growth initiatives. During this period of regulatory forbearance, the FSC will carry out a Quantitative Impact Study (QIS) to determine an optimal position for the MCT that balances growth and stability of the insurance industry.

To qualify for the special provisions for relaxed MCT ratio, investment proposals must be approved by the FSC and commence within the 2-year window provided for in the January 2017 advisory, that is on or before 3 January 2019. The companies will be required to provide details of the initiatives used to pursue growth and the impact these activities will have on the MCT ratio on a monthly basis. During the period of forbearance, the amount of dividends paid to shareholders of the company should not exceed 50% of profit that was achieved for the previous financial year. *The company did not qualify for the relaxed MCT ratio.*

As at 31 December 2019 and 2018, the company did not achieve the minimum required level of capital based on the MCT. The minimum level required was achieved in 2018.

	2019	2018
Actual MCT ratio	186.75%	112.55%
Minimum required MCT ratio	250%	250%

* The company has taken steps, as discussed in note 2, to facilitate future compliance with the required MCT ratio.

6. Fair Value Estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where no market price is available, the fair values presented have been estimated using present values or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

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

(i) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available.

(ii) The fair value of liquid assets and other assets maturing within twelve months is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

(iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts.

(iv) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

The following table presents the company's financial instruments that are measured at fair value at 31 December grouped into Levels 1 to 3 dependent on the degree to which fair values are observable.

	Level 1 $'000	Level 2 $'000	Total $'000
As at 31 December 2019			
Available-for-sale investments –			
Quoted equities	69,413	-	69,413
Corporate debt	-	33,819	33,819
Government debt securities	-	138,705	138,705
	69,413	172,524	241,937
As at 31 December 2018			
Available-for-sale investments –			
Quoted equities	17,292	-	17,292
Corporate debt	-	378,094	378,094
Government debt securities	-	114,706	114,706
	17,292	492,800	510,092

6. Fair Value Estimation (Continued)

- Level 1 includes those instruments which are measured based on quoted priced in active markets for identical assets and liabilities. These mainly comprise equities traded on the Jamaica Stock Exchange and are classified as available-for-sale.
- Level 2 includes those instruments which are measured using inputs other than quoted prices that are observable for the instrument, directly or indirectly. The fair value for these instruments is determined by using valuation techniques and maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between the levels during the year.

Fair value sensitivity analysis

Non-financial assets carried at fair value include property, plant and equipment and investment properties, which fall within level 3 of the fair value hierarchy. The valuations have been performed using the sales comparison approach. There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs, which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale and quality of land, buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

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7. Responsibilities of the Appointed Actuary and Independent Auditors

The Board of Directors, pursuant to the Insurance Act appoints the Actuary, whose responsibility is to carry out an annual valuation of the company's outstanding claims in accordance with accepted actuarial practice and regulatory requirements and report thereon to the shareholders. In performing the valuation, the Actuary analyses past experience with respect to number of claims, claims payment and changes in estimates of outstanding liabilities.

The shareholders, pursuant to the Companies Act, appoint the Independent Auditors. The auditor's responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the Auditors also make use of the work of the appointed Actuary and the Actuary's report on outstanding claims.

8. Expenses by Nature

	2019 $'000	2018 $'000
Advertising	10,916	12,583
Amortisation and depreciation	27,457	14,287
Asset tax	3,375	2,708
Auditor's remuneration	7,499	7,523
Bank charges and interest	5,380	6,804
Donations and subscriptions	5,794	3,953
Computer and data processing expenses	29,250	29,906
Insurance and registration fees	10,163	11,403
Travelling	1,971	2,284
Miscellaneous	2,767	2,537
Motor vehicle expenses	329	551
Office expenses	7,612	8,306
Postage, telephone, fax and utilities	15,339	14,057
Printing and stationery	2,468	3,802
Lease interest	2,203	-
Legal and professional fees	51,245	39,295
Provision for/ (recoveries of) bad debt	8,913	(600)
Rental expenses	-	11,124
Investment properties expense	2,703	4,984
Repairs and maintenance	2,613	5,890
Security	12,833	11,381
Staff costs (Note 9)	224,647	209,338
Administration and other expenses	435,477	402,116
Gross claims	1,624,714	1,123,981
Reinsurance recoveries	(1,673,993)	(119,174)
Claims expense, net of reinsurance recoveries	(49,279)	1,004,807
Commission	173,485	167,313

9. Staff Costs

	2019 $'000	2018 $'000
Wages and salaries	170,392	163,773
Redundancy cost	-	387
Payroll taxes – employer's portion	18,199	15,281
Pension costs – defined contribution	6,402	4,708
Other staff costs	29,654	25,189
	224,647	209,338

10. Investment Income

	2019 $'000	2018 $'000
Interest income	31,401	44,348
Dividend income	1,499	6,871
	32,900	51,219

11. Other Income

	2019 $'000	2018 $'000
Rental income	13,832	14,995
Net foreign exchange gain/(loss)	8,382	(1,232)
Gain on sale of available-for-sale investment securities	9,111	74,922
Gain on sale of investment properties	82,991	-
Miscellaneous income	19	521
	114,335	89,206

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12. Taxation

(a) Until April 9 2020, the company's shares were listed on the Junior Market of the JSE, at which time the shares were migrated to the main market. Consequent on its junior listing until April 8, 2020, the company was entitled to a remission of tax up to March 31, 2026 provided the shares remained listed for at least 15 years, in the proportions set out below.

Years 1 to 5 of listing on the junior market	100%
Years 6 to 10 of listing on the main market	50%

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions for its current tax liability. The migration to the main market in 2020 will disqualify the company from tax remission entitlements post the date of migration. While current taxes have been calculated on the basis of full benefits of remission, deferred taxes have been calculated without consideration of remission, as in accordance with IAS 12, deferred taxes are determined consistent with the tax rates enacted, or substantively enacted at the time when a deferred tax asset is expected to be realised or a deferred liability settled.

Taxation is based on the result for the year adjusted for taxation purposes and represents income tax at 33⅓%.

	2019 **$'000**	**2018** **$'000**
Current year taxation charge	-	-
Deferred taxation (Note 23)	298,778	-
	298,778	-

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12. Taxation (Continued)

Subject to agreement with Tax Administration Jamaica, the company has losses available for offset against future taxable profits of approximately $931,146,000 (2018 - $236,407,000) which may be carried forward indefinitely.

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

	2019 $'000	2018 $'000
Loss before taxation	(566,257)	(167,494)
Tax calculated at a rate of 33⅓%	(188,752)	(55,811)
Adjusted for the effects of:		
Income not subject to tax	(54,199)	(3,260)
Expenses not deductible for tax purposes	12,219	2,272
Recognition of deferred taxes from prior periods on migration to the main market	(78,822)	-
Effect of tax loss position during the year	-	54,740
Net effect of other charges and allowance	10,776	2,079
Tax charge	(298,778)	-

13. Cash and Deposits

	2019 $'000	2018 $'000
Cash at bank and in hand	99,871	519,802
Short-term deposits (Including repurchase agreements)	837,158	194,316
Cash and deposits	937,029	714,118
Hypothecated funds	(3,000)	(3,000)
Cash and cash equivalents	934,029	711,118

Short term deposits include a balance of $3,000,000 (2018 - $3,000,000) which has been hypothecated to the Bank of Nova Scotia Limited as security for a credit card facility.

The effective weighted average interest rates on deposits are as follows:

	2019 %	2018 %
Jamaican dollar deposits	4.21	0.83%
United States dollar deposits	2.34	1.25%

14. Investment Securities

Investments comprise the following:

	2019 $'000	2018 $'000
Available-for- sale		
Government of Jamaica –		
Bonds	136,883	112,881
Interest receivable	1,822	1,825
	138,705	114,706
Corporate bonds	32,269	374,354
Interest receivable	1,550	3,740
	33,819	378,094
Equities	69,413	17,292
	241,937	510,092

Investment securities include securities with a face value of $45,000,000 (2018 - $45,000,000) which have been pledged with the Regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

The current portion of investment securities amounted to $31,402,000 (2018 - $89,961,000).

15. Due from Policyholders, Brokers and Agents

	2019 $'000	2018 $'000
Premiums receivable	174,766	199,621
Less: Provision for impairment	(10,537)	(14,345)
	164,229	185,276

Ageing of premium receivable

	2019 $'000	2018 $'000
Within 1 month	47,244	50,792
1-3 months	68,474	35,155
4-12 months	48,511	99,329
	164,229	185,276

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16. Due from Reinsurers

Amounts recoverable from reinsurers comprise:

	2019 $'000	2018 $'000
Unearned premium - other	149,803	178,736
Unearned premium ceded on motor quota share	235,257	-
Recoverable on claims outstanding	545,944	38,260
Recoverable on claims paid	617,128	-
Recoverable on claims IBNR and PFAD	413,276	(4,835)
Commission on motor quota share	50,128	-
Other	25,516	22,432
	2,037,052	234,593

Balances due from reinsurers in relation to claims outstanding are due within 12 months of the reporting date.

17. Other Receivables

	2019 $'000	2018 $'000
Staff loans	1,522	969
Other	48,953	8,929
	50,475	9,898

Balances relating to staff loans are due within 12 months of the reporting date.

18. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

(a) Transactions with related parties were as follows:

	2019 $'000	2018 $'000
Directors' emoluments-		
Fees	8,410	4,666
Remuneration	16,673	14,534

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18. Related Party Transactions and Balances (Continued)

(b) Key management compensation

	2019 $'000	2018 $'000
Wages and salaries	54,747	30,301
Payroll taxes – employer's portion	12,933	2,937
Pension costs	3,506	3,576
	71,186	36,814

19. Investment Properties

Investment properties relate to land owned by the company. These properties were valued at current market value as at 30 October 2019 by NAI Jamaica Langford and Brown qualified property appraisers and valuators, in their reports dated 14th November 2019. The properties include land which has been leased to third parties for use as parking facilities.

The movement on investment properties balance during the year is as follows:

	2019 $'000	2018 $'000
At beginning of year	341,150	329,650
Disposal	(221,000)	-
Additions	-	1,720
Fair value gains	80,000	9,780
At end of year	200,150	341,150

The following amounts have been recognised in income in the Statement of Comprehensive Income:

	2019 $'000	2018 $'000
Rental income arising from investment properties	13,832	14,995
Operating expenses incurred on investment properties	2,703	4,984
Gain on sale of investment properties	82,598	-

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20. Intangible Assets

	Computer Software $'000
At Cost -	
At 1 January 2018	15,362
Additions during 2018	1,560
At 1 January 2019	16,922
Additions during 2019	868
31 December 2019	17,790
Amortisation -	
At 1 January 2018	11,921
Amortised for the year	1,044
At 1 January 2019	12,965
Amortised for the year	1,188
At 31 December 2019	14,153
Net Book Value -	
31 December 2019	3,637
31 December 2018	3,957

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21. Property, Plant and Equipment

	Land and Buildings $'000	Leasehold Improvements $'000	Computer Equipment $'000	Motor Vehicles $'000	Furniture and Fixtures $'000	Total $'000
			2019			
At Cost/Valuation -						
At 1 January	153,827	24,623	44,390	15,437	52,805	291,082
Adjustment	-	-	-	-	(1,809)	(1,809)
Additions	-	-	4,867	-	344	5,211
Revaluation	37,221	-	-	-	-	37,221
At 31 December	191,048	24,623	49,257	15,437	51,340	331,705
Depreciation -						
At 1 January	9,031	19,991	28,362	10,366	28,900	96,650
Charge for the year	2,423	579	5,324	2,213	3,003	13,542
At 31 December	11,454	20,570	33,686	12,579	31,903	110,192
Net Book Value -						
31 December	179,594	4,053	15,571	2,858	19,437	221,513

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21. Property, Plant and Equipment (Continued)

	Land and Buildings $'000	Leasehold Improvements $'000	Computer Equipment $'000	Motor Vehicles $'000	Furniture and Fixtures $'000	Total $'000
			2018			
At Cost/Valuation -						
At 1 January	147,717	24,623	35,211	24,786	52,162	284,499
Transfer to investment properties	-	-	-	(2,640)	-	(2,640)
Additions	-	-	9,179	-	643	9,822
Disposals	-	-	-	(6,709)	-	(6,709)
Revaluation	6,110	-	-	-	-	6,110
At 31 December	153,827	24,623	44,390	15,437	52,805	291,082
Depreciation -						
At 1 January	6,608	18,828	23,960	17,362	25,858	92,616
Transfer to investment properties	-	-	-	(2,640)	-	(2,640)
Disposal	-	-	-	(6,569)	-	(6,569)
Charge for the year	2,423	1,163	4,402	2,213	3,042	13,243
At 31 December	9,031	19,991	28,362	10,366	28,900	96,650
Net Book Value -						
31 December	144,796	4,632	16,028	5,071	23,905	194,432

Land and buildings were valued at current market values as at 31 December 2019. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2019 $'000	2018 $'000
Cost	133,391	140,583
Accumulated depreciation	(6,670)	(7,192)
	126,721	133,391

22. Other Payables

	2019 $'000	2018 $'000
Accrued expenses	27,484	30,558
Accrued payroll expenses	1,662	1,128
Statutory	8,510	7,919
Other	27,305	13,926
	64,961	53,531

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23. Deferred Taxation

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

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

	2019 $'000	2018 $'000
At the beginning of the year	(3,111)	(2,093)
Deferred tax charged to other comprehensive income (Note 27)	(17,342)	(1,018)
Deferred tax credited/(charged) to profit or loss in the statement of comprehensive income (Note 12)	298,778	-
At end of year	278,325	(3,111)

The movement in deferred tax assets and liabilities is as follows:

	Tax losses $'000	Accelerated tax depreciation $'000	Revaluation gains on buildings $'000	Interest Accrued $'000	Total $'000
At 1 January 2018	11,782	-	(13,875)	-	(2,093)
Deferred tax charged to other comprehensive income	-	-	(1,018)	-	(1,018)
Deferred tax charged to profit in the statement of comprehensive income	-	-	-	-	-
At 31 December 2018	11,782	-	(14,893)	-	(3,111)
Deferred tax charged to other comprehensive income	-	-	(17,342)	-	(17,342)
Deferred tax credited/(charged) to profit in the statement of comprehensive income	298,600	1,302	-	(1,124)	298,778
At 31 December 2019	310,382	1,302	(32,235)	(1,124)	278,325

	2019 $'000	2018 $'000
Deferred tax liabilities that are expected to be settled after more than 12 months after the year end	(32,235)	(14,893)
Deferred tax assets that are expected to be recovered after more than 12 months after the year end	310,382	11,782

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24. Insurance Reserves

	2019 $'000	2018 $'000
Provision for unexpired risks	142,209	77,806
Provision for unearned premiums	480,070	637,024
Unearned commissions	32,053	38,546
Provision for claims IBNR, PFAD & UCAE	746,471	310,106
Claims outstanding	760,160	534,919
	2,160,963	1,598,401

Included in the provision for claims IBNR and claims outstanding is a provision for adverse deviation of $133,022,000 (2018 - $91,215,000). An actuarial valuation was performed by the company's appointed actuary, Eckler Ltd., to value the policy and claims liabilities of the company as at 31 December 2019, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles.

	Gross Liabilities 2019 $'000	Ceded 2019 $'000	Net Liabilities 2019 $'000
Provision for unexpired risks	142,209	-	142,209
Provision for unearned premiums	480,070	385,060	95,010
Unearned commissions	32,053	(9,772)	41,825
Provision for claims IBNR	571,514	407,435	164,079
Provision for adverse deviation	133,022	5,841	127,181
Unallocated claim adjustment expenses	41,935	-	41,935
Claims outstanding	760,160	545,944	214,216
	2,160,963	1,334,508	826,455

	Gross Liabilities 2018 $'000	Ceded 2018 $'000	Net Liabilities 2018 $'000
Provision for unexpired risks	77,806	-	77,806
Provision for unearned premiums	637,024	178,736	458,288
Unearned commissions	38,546	-	38,546
Provision for claims IBNR	194,742	(7,167)	201,909
Provision for adverse deviation	91,215	2,332	88,883
Unallocated claim adjustment expenses	24,149	-	24,149
Claims outstanding	534,919	38,260	496,659
	1,598,401	212,161	1,386,240

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24. Insurance Reserves (Continued)

In his opinion dated 12 May 2020, the actuary found that the amount of policy and claims liabilities represented in the balance sheet at 31 December 2019 makes proper provision for the future payments under the company's policies and meets the requirements of the Insurance Act and other appropriate regulations of Jamaica; that a proper charge on account of these liabilities has been made in the statement of operations; and that there is not sufficient capital available to meet the solvency standards as established by the FSC.

(a) Actuarial data

The data employed in the analysis of outstanding claims and premium liabilities was taken directly from the company's records. Individual items (on both a gross and net basis) used in estimating liabilities as at 31 December 2019 were as follows, grouped by each accident year from 2006 to 2019:

(i) Claims incurred and paid for accident years 2006 onwards.

(ii) Loss adjustment expenses paid for accident years 2006 onwards.

(iii) Paid and incurred large loss amounts in each accident year from 2006 onwards.

(iv) Earned premiums for each year from 2006 to 2019.

(b) Actuarial assumptions

In accordance with IFRS 4, a Liability Adequacy Test was taken into consideration in determining the adequacy of insurance reserves reported by the company.

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

(i) With respect to the analysis of incurred claims development history, the level of case reserve adequacy is relatively consistent, in inflation adjusted terms, over the experience period.

(ii) With respect to the analysis of the net paid claims development history, the rate of payment of the incurred losses for the recent history is indicative of future settlement patterns.

(iii) With respect to the Loss Development and Bornhuetter-Ferguson methods, the average ultimate loss ratio for recent accident years, adjusted for claims inflation and changes in average rate level, is representative of the expected loss ratio for the most recent accident year.

(iv) The claims inflation rate implicitly used in the valuation is equivalent to that rate which is part of historical data.

There were no significant changes in assumptions or methods during the year.

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24. Insurance Reserves (Continued)

(c) Provision for adverse deviation assumptions

Any discrepancy which may ultimately arise between the statistical estimates of outstanding claims and the actual future experience is uncertain. The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

(d) Movement in reserves, insurance assets and deferred policy acquisition cost

	2019 $'000	2018 $'000
Unexpired risk reserve:		
At the beginning of the year	77,806	44,503
Recognised in profit or loss	64,403	33,303
At the end of the year	142,209	77,806
Provision for unearned premium:		
At the beginning of the year	637,024	603,734
Premiums written during the year	1,403,690	1,791,567
Premiums earned during the year	(1,560,644)	(1,758,277)
At the end of the year	480,070	637,024
Unearned commissions:		
At the beginning of the year	38,546	37,347
Commissions on reinsurance premium written during the year	139,202	117,124
Earned commission recognized in profit or loss	(145,695)	(115,925)
At the end of the year	32,053	38,546

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24. Insurance Reserves (Continued)

(e) Change in insurance liabilities

	2019 $'000	**2018 $'000**
Provision for claims IBNR, net:		
At the beginning of the year	314,941	183,596
Current year recognized as part of claims expense – IBNR, net	409,006	137,806
Current year recognized as part of claims expense – IBNR Recoverable	(390,752)	(6,461)
At the end of the year	333,195	314,941
Gross Claims Outstanding:		
At the beginning of the year	534,919	370,873
Recognised as part of claims expense in profit or loss	1,188,348	986,175
Gross amount paid during the year	(963,107)	(822,129)
At the end of the year	760,160	534,919
Deferred policy acquisition cost:		
At the beginning of the year	155,211	131,858
Commissions on premium written during the year	139,202	117,124
Direct premium expense incurred during the year	(173,485)	(167,313)
Change in deferred branch acquisition cost during year	(17,775)	73,542
At the end of the year	138,703	155,211
Unearned reinsurance premiums		
At the beginning of the year	178,736	177,655
Reinsurance premium ceded	1,492,804**	611,963
Reinsurance premium incurred during the year	(1,286,480)	(610,882)
At the end of the year	385,060	178,736

**Reinsurance premium ceded for 2019 includes reinsurance ceded on business written during the current year, as well as reinsurance ceded on unearned premium at the end of 2018, consequent on the 75% motor quota share treaty with Hannover Re.

24. Insurance Reserves (Continued)

(f) Sensitivity analysis

The determination of the actuarial liabilities is heavily dependent on loss development factors, which are used to estimate the ultimate liability for each claim. In determining the loss development factors, the actuaries review patterns in relation to incurred and paid claims, as well as loss ratios for various lines of business. Management considers a 10% loss development ratios as a reasonably possible change. The table below shows the amounts by which gross and net IBNR will change, resulting from a 10% change in loss development factors.

	2019	
	Gross IBNR	**Net IBNR**
	$'000	**$'000**
10% increase in loss development	37,847	37,628
10% decrease in loss development	40,483	40,263

	2018	
	Gross IBNR	**Net IBNR**
	$'000	**$'000**
10% increase in loss development	18,834	18,031
10% decrease in loss development	(19,492)	(18,682)

25. Share Capital

	2019 $'000	**2018 $'000**
Authorised -		
496,000,000) ordinary shares		
Issued and fully paid -		
368,460,863 ordinary shares at no par value	235,282	235,282

26. Capital Reserve

	2019 $'000	**2018 $'000**
At end of year	57,371	57,371

During 2014, land and building with a value of $110,000,000 was transferred to the company to settle related party debt of $53,629,000. The amount recognised in capital reserve relates to the excess value over the receivables.

27. Fair Value Reserves

This represents unrealised gains and losses on the valuation of available-for-sale-investments, investment properties and property, plant and equipment, net of deferred taxes. Fair value gains on investment properties have been transferred from retained earnings to the fair value reserve to prevent distribution of these gains, as they are unrealised.

	2019 $'000	2018 $'000
At beginning of year	340,449	358,721
Fair value gains/(losses) on available-for-sale securities	19,141	(33,144)
Fair value gains on investment properties	80,000	9,780
Revaluation gains on property, plant and equipment	37,221	6,110
Deferred tax charged to other comprehensive income (Note 23)	(17,342)	(1,018)
At end of year	459,469	340,449

28. Loss Per Share

	2019	2018
Net Loss from operations ($'000)	(267,479)	(167,494)
Number of ordinary shares in issue ('000)	368,461	368,461
Loss per share	**(0.73) cents**	**(0.45) cents**

29. Segment Information

Management has determined the operating segments based on the reports reviewed by the Managing Director (MD) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The operating segments are Motor and Non-Motor classes of insurance premium written. These two segments represent the company's strategic business units. The strategic business units offer different products, and are managed separately because they require among other things, different marketing strategies. For each of the strategic business units, the company's MD reviews internal management reports on at least a monthly basis. These reports do not include details of segment assets. The following summary describes the operations in each of the company's reportable segments: motor and non-motor classes. The company sells motor policies and these range from comprehensive cover to third party act policies. The non-motor class comprises liability, property, engineering, travel, personal accident and miscellaneous accident classes. There are no inter-divisional sales.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss) before income tax, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's MD.

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29. Segment Information (Continued)

Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on sales.

The company's operations are located entirely in Jamaica.

	2019		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross Premiums written	979,560	424,130	1,403,690
Change in unearned premium reserve, net	125,253	542	125,795
Gross premiums earned	1,104,813	424,672	1,529,485
Reinsurance ceded	(1,420,176)	(417,940)	(1,838,116)
Net Premiums earned	(315,363)	6,732	(308,361)
Underwriting expenses	(177,381)	(307,480)	(484,861)
Underwriting loss	(492,744)	(300,748)	(793,492)

No single customer accounted for 10% or more of total revenues of the company either in 2019 or in 2018.

	2018		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross Premiums written	1,245,149	546,418	1,791,567
Change in unearned premium reserve, net	(33,167)	979	(32,188)
Gross premiums earned	1,211,982	547,397	1,759,379
Reinsurance ceded	(97,490)	(514,473)	(611,963)
Net premiums earned	1,114,492	32,924	1,147,416
Underwriting expenses	(1,365,861)	(99,254)	(1,465,115)
Underwriting loss	(251,369)	(66,330)	(317,699)

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30. Operating Lease

The company leases various branch offices under operating lease agreements. The minimum lease payment for 2019 was Nil (2018 - $11,124,000).

The future aggregate minimum lease payments under the operating leases are as follows:

	2019 $'000	2018 $'000
No later than 1 year	-	11,212
Later than 1 year and no later than 5 years	-	22,241
	-	33,453

31. Contingency

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

32. Leases

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2019 $'000
Right-of-use assets	
Property	17,808
	17,808
Lease liabilities	
Current	12,261
Non-current	6,689
	18,950

In the previous year, the company only disclosed its operating lease commitments in relation to leases that were classified as 'operating leases' under IAS 17 Leases.

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32. Leases (Continued)

(b) Amounts recognized in the income statement

The income statement shows the following amounts relating to leases:

	2019
	$'000
Depreciation charge of right-of-use assets	
Property	12,726
Interest expense	2,203

(c) The company's leasing activities and how these are accounted for

The company leases various offices which serves as branches. Rental contracts are typically made for fixed periods of 12 months to 5 years but may have extension options as described in (d) below.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, were classified as operating leases, see note 30 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

(i) fixed payments (including in-substance fixed payments), less any lease incentives receivable
(ii) variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
(iii) amounts expected to be payable by the company under residual value guarantees
(iv) the exercise price of a purchase option if the company is reasonably certain to exercise that option, and
(v) payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

32. Leases (Continued)

(c) The company's leasing activities and how these are accounted for (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:
(i) where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
(ii) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company, which does not have recent third party financing, and
(iii) makes adjustments specific to the lease, e.g. term, country, currency and security.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
(i) the amount of the initial measurement of lease liability
(ii) any lease payments made at or before the commencement date less any lease incentives received
(iii) any initial direct costs, and
(iv) restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(d) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the company. These are used to maximise operational flexibility in terms of managing the assets used in the company's operations. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor.

33. Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16 Leases on the company's financial statements.

As indicated in Note 2, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 32.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.5%.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

(i) applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
(ii) relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
(iii) accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
(iv) excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and;
(v) using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

	2019 $'000
Operating lease commitments disclosed as at 31 December 2018	33,453
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(2,920)
Lease liability recognised as at 1 January 2019	30,533
Of which are:	
Current lease liabilities	11,583
Non-current lease liabilities	18,950
	30,533

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33. Changes in Accounting Policies (Continued)

(b) Measurement of lease liabilities (continued)

Minimum lease payments

	2019 $	2018 $
Finance lease liabilities - minimum lease payments		
Lease payments falling due within one year	12,315	13,861
Lease payments falling due between 1-5 years	7,875	19,592
	20,190	33,453
Future finance charges on finance leases	(1,240)	(2,920)
Present value of finance lease liabilities	18,950	30,533

The present value of finance liabilities may be analysed as follows:

Lease payments falling due within one year	12,261	11,583
Lease payments falling due between 1-5 years	6,689	18,950
	18,950	30,533

(c) Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liability as at 31 December 2018.

(d) Adjustments recognised in the statement of financial position on 1 January 2019:

- Right-of-use assets $30,533,000
- Lease liabilities $30,533,000

34. Dividend

On 21 May 2019, the Board of Directors declared a final dividend in respect of 2018 of $0.029 per share stock unit out of earnings for the year ended 31 December 2018. The dividend was paid on 20 July 2019 for stockholders on record as at 4 June 2019. No dividends were declared or paid in the current year.

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35. Subsequent Events

a) Subsequent to the end of the financial year, the World Health Organisation (WHO) has declared the Coronavirus to be a global pandemic. The pandemic has resulted in a significant downturn in commercial activity as there is currently no cure, and the means most recommended to manage contagion is social distancing. Schools have therefore been temporarily closed, entertainment and sporting events which typically generate huge revenues and profits have been either cancelled or suspended, global travel restrictions have been implemented, all of which will have negative global economic consequences.

The Company is exposed to the potential effects of the Coronavirus on the economic downturn that could lead to contracted general insurance business, depressed asset values from a market risk perspective, and lower interest income. Additionally, this may lead to impairment of the company's investment securities due higher credit risks associated with financial assets.

There has not been a sufficient passage of time for management to quantify the impact of the foregoing on its financial results at the time of reporting.

b) On January 22, 2020, the company received a takeover Bid Circular from Grace Kennedy Financial Group Limited. The acquisition of 65% of the issued shares of Key Insurance Company Limited by Grace Kennedy Financial Group was completed in March 2020.

c) The company's application to graduate from the Junior Market of the Jamaica Stock Exchange (JSE), to the Main Market, was approved by the JSE on April 7, 2020. The graduation took effect on April 9, 2020.