Key Insurance Company Limited

Financial Statements
31 December 2021

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EXPRESSION OF OPINION

I have examined the financial condition and valued the policy and claims liabilities of Key for its balance sheet as at December 31, 2021 and the corresponding change in the policy and claims liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica. I have relied upon PWC for the substantial accuracy of the records and information concerning other liabilities, as certified in the attached statement.

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

Claims Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Direct unpaid claims and adjustment expenses:	1,484,391	1,474,364
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	1,484,391	1,474,364
Ceded unpaid claims and adjustment expenses:	837,632	816,052
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	646,759	658,312

Policy Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		564,319
Net policy liabilities in connection with unearned premiums:		545,320
Gross unearned premiums:	823,686	
Net unearned premiums:	603,326	
Premium deficiency:	-25,913	
Other net liabilities:	0	

In my opinion:

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

(ii) The valuation of policy and claims liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Commission;

(iii) The methods and assumptions used to calculate the policy and claims liabilities are appropriate to the circumstances of the company and of the said policies and claims;

(iv) The amount of policy and claims liabilities represented in the balance sheet of Key Insurance Company Limited makes proper provision for the future payments under the company's policies and meet the requirements of the Insurance Act and other appropriate regulations of Jamaica;

(v) A proper charge on account of these liabilities has been made in the statement of comprehensive income;

(vi) The capital position is questionable to meet the solvency standards as established by the Commission

Josh Worsham, FCAS, MAAA	Josh Worsham	March 1, 2022
Name of Appointed Actuary	Signature of Appointed Actuary	Date

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 2021, 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

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- 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 and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: 876) 922 7581, www.pwc.com/jm

L.A. McKnight B.L. Scott B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore T.N. Smith DaSilva K.D. Powell.

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.

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 *Refer to notes 2(n), 3(b) and 24 to the financial statements for management's disclosures of related accounting policies, judgements and estimates.* As at 31 December 2021, total incurred but not reported reserves amounted to $519 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.	The approach to addressing the matter, with the assistance of our actuarial specialists, involved the following procedures, amongst others: Tested the completeness, accuracy and reliability of the underlying data utilized by management, and its external actuarial experts, to support the actuarial valuation. Assessed the independence, experience and objectivity of management's actuarial expert. Performed a methods and assumptions analysis of the actuarial valuation prepared by management's actuarial expert. Considered the suitability of the methodology used by management's actuary in establishing claims liabilities against established actuarial practice and our knowledge and experience.

Key audit matter	How our audit addressed the key audit matter
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.	The results of our procedures indicated that the assumptions used by management for determining the value incurred but not reported claims for property and casualty contracts were not unreasonable and the methodologies applied were 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, actions taken to eliminate threats or safeguards applied.

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 Gail Moore.

PricewaterhouseCoopers

Chartered Accountants
1 March 2022
Kingston, Jamaica

Key Insurance Company Limited

Statement of Comprehensive Income

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021	2020
		$'000	$'000
Gross Premiums Written		1,914,966	1,432,083
Reinsurance ceded		(599,099)	(489,715)
Net premiums written		1,315,867	942,368
Change in unearned premiums, net		(164,873)	(108,184)
Net Premiums Earned		1,150,994	834,184
Commission income		96,606	159,925
Commission expense		(160,395)	(171,328)
Claims expense		(589,773)	(563,187)
Change in unexpired risk reserve		84,587	31,709
Administration and other expenses	8	(502,886)	(489,400)
Amortisation of underwriting assets	32	-	(323,136)
Underwriting Gain/(Loss)		79,133	(521,233)
Investment income	10	59,744	27,494
Gains on revaluation of investment properties	19	-	26,584
Other income	11	98,761	17,656
Profit/(Loss) Before Taxation		237,638	(449,499)
Taxation	12	(77,249)	149,833
Net Profit/(Loss)		160,389	(299,666)
Other Comprehensive Income:			
Item that may be subsequently reclassified to profit or loss:			
Net loss on the re-measurements of financial assets at FVOCI, net of taxes		(12,666)	(23,393)
Item that will not be subsequently reclassified to profit or loss:			
Revaluation gains on property, plant and equipment, net of taxes		-	12,836
Other Comprehensive Income		(12,666)	(10,557)
Total Comprehensive Income for the Year		147,723	(310,223)
Earnings per Stock Unit	28	$0.30	($0.81)

Key Insurance Company Limited

Statement of Financial Position

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
ASSETS			
Cash and cash equivalents	13	1,474,237	745,183
Investment securities	14	780,049	395,674
Due from policyholders, brokers and agents	15	258,833	190,930
Due from reinsurers	16	1,059,554	363,946
Deferred policy acquisition costs		82,957	62,622
Taxation recoverable		202,549	220,770
Other receivables	17	1,394	29,856
Right-of-use asset	31	10,124	6,575
Investment properties	19	-	226,734
Intangible assets	20	3,016	2,910
Property, plant and equipment	21	227,529	231,934
Deferred taxation	23	380,047	428,158
		4,480,289	2,905,292
LIABILITIES AND EQUITY			
Liabilities			
Other payables	22	213,205	136,279
Lease liability	31	10,982	8,648
Due to reinsurers		800,420	151,937
Insurance reserves	24	2,380,964	2,349,451
		3,405,571	2,646,315
Equity			
Share capital	25	903,300	235,282
Capital reserve	26	57,371	57,371
Fair value reserves	27	62,105	479,936
Retained earnings/(Accumulated deficit)		51,942	(513,612)
		1,074,718	258,977
		4,480,289	2,905,292

Approved for issue on behalf of the Board of Directors on 1 March 2022 and signed on its behalf by:

Don Wehby — Chairman

Linval Freeman — Director

Key Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Capital Reserve $'000	Fair Value Reserves $'000	(Accumulated Deficit)/ Retained Earnings $'000	Total $'000
Balance at 1 January 2020	235,282	57,371	459,469	(91,782)	660,340
Change in accounting policy	-	-	4,440	(95,580)	(91,140)
Restated total equity at the beginning of the financial year	235,282	57,371	463,909	(187,362)	569,200
Loss for the year	-	-	-	(299,666)	(299,666)
Other comprehensive income	-	-	(10,557)	-	(10,557)
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from accumulated deficit (Note 27)	-	-	26,584	(26,584)	-
Balance at 31 December 2020	235,282	57,371	479,936	(513,612)	258,977
Issue of stock units (Note 25)	668,018	-	-	-	668,018
Profit for the year	-	-	-	160,389	160,389
Other comprehensive income	-	-	(12,666)	-	(12,666)
Transfer between reserves:					
Realised gains on disposal of investment properties, transferred to accumulated deficit (Note 27)	-	-	(405,165)	405,165	-
Balance at 31 December 2021	903,300	57,371	62,105	51,942	1,074,718

Key Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Cash Flows from Operating Activities			
Net profit/(loss)		160,389	(299,666)
Adjustments for:			
Amortisation and depreciation	8	22,857	23,778
Expected credit losses	8	10,472	5,591
Gain on sale of property, plant and equipment		(773)	(7,668)
Write-off of property, plant and equipment	21	342	-
Gains on revaluation of investment properties	19	-	(26,584)
Net foreign exchange gains		(18,030)	(4,181)
Dividend income	10	(167)	(997)
Interest expense	31	1,204	992
Interest income	10	(59,577)	(26,497)
Taxation	12	77,249	(149,833)
		193,966	(485,065)
Changes in operating assets and liabilities			
Due from policyholders, brokers and agents		(67,903)	(26,701)
Deferred policy acquisition costs		(20,335)	76,081
Insurance reserves		31,513	188,488
Due from reinsurers		(695,608)	1,673,106
Due to reinsurers		648,483	(1,452,824)
Other assets		28,462	20,619
Other liabilities		76,926	71,318
Cash generated from operations		195,504	65,022
Interest paid		(1,204)	(992)
Taxation paid		(10,925)	(1,653)
Net cash provided by operating activities		183,375	62,377
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	21	(8,201)	(10,852)
Acquisition of intangible asset	20	(1,696)	(672)
Proceeds on disposal of property, plant and equipment		773	9,789
Proceeds on disposal of investment properties		249,554	-
Purchase of investments		(597,898)	(264,245)
Disposal/maturity of investments		191,965	-
Interest and dividend received		52,239	27,461
Net cash used in investing activities		(113,264)	(238,519)
Cash Flows from Financing Activities			
Proceeds from rights issue of ordinary stock units	25	668,018	-
Lease principal payments	31	(12,346)	(11,294)
Net cash provided by/(used in) financing activities		655,672	(11,294)
Net increase/(decrease) in cash and cash equivalents (Page 5)		725,783	(187,436)

Key Insurance Company Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 $'000	2020 $'000
Net increase/(decrease) in cash and cash equivalents (Page 4)		725,783	(187,436)
Effect of changes in exchange rate on cash and cash equivalents		3,271	(1,410)
Cash and cash equivalents at beginning of year		745,183	934,029
Cash and Cash Equivalents at the End of the Year	13	1,474,237	745,183

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2021
(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 and place of business is located at 6c Halfway 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) The acquisition of 65% of the issued stock units of Key Insurance Company Limited by Grace Kennedy Financial Group Limited (GKFG) was completed on 29 March 2020. The ultimate parent company is GraceKennedy Limited. Both the parent, Grace Kennedy Financial Group Limited, and the ultimate parent are incorporated and domiciled in Jamaica. In January 2021, the company raised $668,000,000 by way of a rights issue whereby an additional 190,862,238 ordinary stock units were issued to new and existing stockholders. GKFG exercised its rights and increased its shareholding to 72%.

(d) The company graduated from the Junior Market of the Jamaica Stock Exchange (JSE) to the Main Market. The graduation took effect on 9 April 2020.

The financial statements were authorised for issue by the Directors of the company on 1 March 2022. The Directors have the power to amend and reissue the financial statements.

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) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS, and have been prepared under the historical cost convention except for certain investment securities, investment properties and certain items of property, plant and equipment measured at fair value. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Accounting pronouncements effective in 2021 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 and prior financial years. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that there were no new or amended accountings standards that required the company to change its accounting policies or add new disclosures for the 2021 financial year.

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 2022 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:

IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The company is in the process of implementing the new standard for its insurance contracts, which are likely to qualify for the simplified measurement model (the premium allocation approach) which is a modified approach to the general measurement model.

Amendment to IAS 16, 'Property, plant and equipment' (effective for annual periods beginning on or after 1 January 2022). This amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognise such sales proceeds and related cost in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The company is currently assessing the impact of this amendment.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' (effective for annual periods beginning on or after 1 January 2022). This amendment specifies which costs a company includes when assessing whether a contract will be loss making. It clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The company is currently assessing the impact of these amendments.

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2021
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The company is currently assessing the impact of this amendment.

Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction (effective for annual periods beginning on or after 1 January 2023). These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. The company is currently assessing the impact of these amendments.

Amendments to IAS 1, Practice statement 2 and IAS 8 (effective for annual periods beginning on or after 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The company is currently assessing the impact of these amendments.

Amendments to IAS 1, 'Presentation of financial statements' (effective for accounting periods starting not earlier than 1 January 2024). 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. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment. The company is currently assessing the impact of these amendments.

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.

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2021
(expressed in Jamaican dollars unless otherwise indicated)

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 statement of financial position 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.

Classification

The company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows. The company reclassifies debt investments only when its business model for managing those assets changes.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Equity instruments held for trading are measured at fair value through profit or loss (FVPL).

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Key Insurance Company Limited

Notes to the Financial Statements
31 December 2021
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Financial assets (continued)
Measurement

Debt instruments
Measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset. The company classifies its debt instruments into three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in the profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are included in administration and other expenses in profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Changes in fair value are taken through OCI. The recognition of interest income and impairment gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss. Interest income from these financial assets is included in the profit or loss using the effective interest rate method. Impairment losses are included in administration and other expenses in profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments
The company measures all equity investments at fair value. Where the company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment.

Dividends from such investments continue to be recognised in profit or loss when the company's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in the profit or loss.

Impairment
The company assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets classified at amortised cost and debt instruments measured at FVOCI.

Application of the General Model
The company has applied the 'general model' as required under IFRS 9 for financial assets other than receivables from agents, brokers and policyholders. Under this model, the company is required to assess on a forward-looking basis the ECL associated with its debt investments carried at amortised cost and FVOCI. The ECL is recognised in profit or loss before a loss event has occurred. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers the time value of money in relation to these outcomes.

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2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Financial assets (continued)
Impairment (continued)

Application of the General Model (continued)
The probability-weighted outcome considers multiple scenarios based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL is computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

- Stage 2 – When a financial asset experiences a significant increase in credit risk subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

- Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

Macro-economic Factors and Forward-Looking Information
The company applies an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macro-economic factors and forward-looking information are considered in measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECL at each reporting period reflects reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The company uses three scenarios that are probability-weighted to determine ECL.

Expected Life
When measuring ECL, the company considers the maximum contractual period over which the company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment options.

Application of the Simplified Approach
For receivables from agents, brokers and policy holders and intercompany receivables, the company applies the simplified approach permitted by IFRS 9, which requires that the impairment provision is measured at initial recognition and throughout the life of the receivables using a lifetime ECL. As a practical expedient, a provision matrix is utilised in determining the lifetime ECL for these receivables.

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Financial assets (continued)
Impairment (continued)

The lifetime ECL is determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward-looking information.

Premium receivable
Receivables are recognised when due, and are carried at cost, less provision for impairment, which is deemed to approximate the fair value of these short-term assets. These include amounts due from agents, brokers and insurance contract holders.

Expected credit losses are calculated on receivables from agents, brokers and policyholders and intercompany receivables on a periodic basis and the carrying amount reduced accordingly with the impairment loss recognised in profit or loss.

Cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank and in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Financial liabilities
The company's financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. At the statement of financial position 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 statement of financial position.

2. Significant Accounting Policies (Continued)

(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 subsequently amortised as the premium is earned over the life of the contract. Deferred policy acquisition costs are subject to recoverability testing at the time of the policy issue and at the end of each accounting period.

(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 investment 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 stockholders' 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.

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

As a lessee

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the company.

The right-of-use assets are presented in a separate line on the statement of financial position.

At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the company under residual value guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

The lease payments are discounted using the company's incremental borrowing rate. The incremental borrowing rate at 31 December 2020 and 31 December 2021 was 7.5%.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

2. Significant Accounting Policies (Continued)

(k) Leases (continued)

As a lessee (continued)

Subsequently, the right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation period for the right-of-use assets is over the lease term of the property.

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The company applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

Short-term leases are leases with a lease term of 12 months or less.

(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 represent liabilities for goods and services provided by the company prior to the end of the financial year which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(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 statement of financial position date and is amortised to income on a straight-line basis over the life of the insurance contract by applying 365th method to gross written premiums. 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 unearned commission represents the actual commission income on premium ceded on proportional reinsurance contracts relating to the unexpired period of risk carried. The income is deferred as unearned commission reserves, and amortised over the life of the period in which the commissions are expected to be earned. These reserves are calculated by applying the 365th method to gross commissions.

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 statement of financial position 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.

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 or statement of comprehensive income.

2. Significant Accounting Policies (Continued)

(o) Income taxes

Taxation for the year 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 statement of financial position date.

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

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

(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 statement of financial position 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 statement of financial position date are discounted to present value.

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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 recognised on the same basis as gross written premium.

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

Interest income

Interest income is recognised in 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.

(s) Share capital

Ordinary stock units are classified as equity. Incremental costs directly attributable to the issue of new stock units or options are shown in equity as a deduction, net of taxes, from the proceeds.

Dividends

Provision is made for the amount of any dividends declared, being appropriately authorised and no longer at the discretion of the entity, or before the end of the reporting period but not distributed at the end of the year.

(t) 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 General Manager who makes strategic decisions.

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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 statement of financial position 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 had a deferred tax asset of $421,310,000 (2020 - $458,364,000) 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 or loss.

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 results 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 claim's exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the statement of financial position date.

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:

	2021		2020	
	Policy Limit '000	**Maximum Net Retention '000**	**Policy Limit '000**	**Maximum Net Retention '000**
Commercial property –				
Fire and consequential loss	US$ 6,500	US$ 375	US$ 6,000	US$ 200
Boiler and machinery	US$ 1,500	US$ 375	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$ 2,500	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$ 73,000	J$36,500	J$ 70,000	J$ 35,000
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)

		2016 and prior	2017	2017 and prior	2018	2018 and prior	2019	2019 and prior	2020	2020 and prior	2021	2021 and prior
2016	Paid during year	259,839										
	UCAE, end of year	308,842										
	IBNR, end of year	166,654										
	Ratio: excess (deficiency)											
2017	Paid during year	211,412	159,207	370,619								
	UCAE, end of year	144,999	155,770	300,768								
	IBNR, end of year	166,654	16,942	183,596								
	Ratio: excess (deficiency)	(16.51%)										
2018	Paid during year	81,293	290,505	371,798	300,941	672,739						
	UCAE, end of year	113,109	89,127	202,236	294,423	496,659						
	IBNR, end of year	166,654	16,942	183,596	131,345	314,941						
	Ratio: excess (deficiency)	(27.51%)		(56.42%)								
2019	Paid during year	52,084	77,310	129,394	429,231	558,625	309,996	868,621				
	UCAE, end of year	84,829	72,045	156,874	193,300	350,174	(135,958)	214,216				
	IBNR, end of year	22,885	28,352	51,237	118,610	169,847	163,348	333,195				
	Ratio: excess (deficiency)	(0.79%)		(46.44%)		(32.90%)						
2020	Paid during year	23,345	18,130	41,475	68,215	109,690	280,851	390,541	193,338	583,879		
	UCAE, end of year	71,866	55,400	127,266	119,667	246,933	239,763	486,696	294,354	781,050		
	IBNR, end of year	43,052	35,483	78,535	71,554	150,089	131,842	281,931	335,341	617,272		
	Ratio: excess (deficiency)	(7.60%)	(176.08%)	(54.53%)	(61.75%)	(31.26%)	(2,282.10%)	(111.75%)				
2021	Paid during year	10,996	15,896	26,892	29,185	56,077	84,384	140,461	197,649	338,110	325,880	663,990
	UCAE, end of year	3,795	259	4,054	1,664	5,718	1,594	7,312	1,000	8,312	376,018	384,330
	IBNR, end of year	3,036	933	3,969	1,900	5,869	488	6,357	5,092	11,449	250,980	262,429
	Ratio: excess (deficiency)	12.69%	(256.8%)	(69.29%)	5.6%	(4.74%)	(239.04%)	0.5%	67.64%	74.41%		

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.

	2021				
	Liability	Property	Motor	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross Claims liability (not including IBNR)	28,041	11,863	916,829	8,211	964,944
Net Claims liability (not including IBNR)	9,366	1,020	372,365	1,579	384,330
Gross IBNR & ULAE	13,968	5,910	495,478	4,091	519,447
Net IBNR & ULAE	20,588	9,753	225,646	6,442	262,429
Gross and Net Unexpired Risk Reserve	664	8,404	14,976	1,869	25,913

	2020				
	Liability	Property	Motor	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross Claims liability (not including IBNR)	25,527	112,587	783,562	14,382	936,058
Net Claims liability (not including IBNR)	6,179	7,840	764,320	2,711	781,050
Gross IBNR & ULAE	3,870	17,070	622,569	2,181	645,690
Net IBNR & ULAE	2,101	7,494	606,563	1,114	617,272
Gross and Net Unexpired Risk Reserve	991	1,111	108,019	379	110,500

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 stabilise 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 J$22,000,000 and US$25,500,000 respectively (2020 - J$15,000,000 and J$71,000,000) per any one loss.

4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk (continued)

(ii) The company insures with several reinsurers who take up 5% to 100% of their treaty arrangements. 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). The significant reinsurers are as follows:

	Ratings
Munich Re	AA-
Hanover Re*	AA-
Odyssey Re	A-
GIC Re	B++
Patria	A
Sirius International (UK)	A+
Scor Re	AA-
Knutsford Re	A
Lloyds Syndicate	A
R&V Re	A
K2 Peak Re	A
QBE Re	A+

At 31 December 2021 and 31 December 2020, the company has maintained the appropriate reinsurance arrangements to cover all classes of business and products as is required by the Regulators.

Reinsurance recoveries/(payables) recognised during the year are as follows:

	2021	**2020**
	$'000	**$'000**
Property	(36,681)	100,020
Motor	111,520	20,029
Engineering	(427)	1,413
Accident	(4,771)	2,935
Liability	(5,876)	(1,946)
	63,765	122,451

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)

Exposure to credit risk

	2021 $'000	2020 $'000
Subject to expected credit losses:		
Cash and short term investments	1,474,237	745,183
Financial assets at fair value through other comprehensive income	776,970	172,082
Receivables from agents, brokers & policyholders	258,833	190,930
Recoverable from reinsurers and coinsurers	1,059,554	363,946
	3,569,594	1,472,141

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Debt securities

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

	2021 $'000	2020 $'000
Government of Jamaica	746,636	141,764
Corporate	30,334	30,318
	776,970	172,082

The maximum credit exposure arising from the company's other financial assets equals their carrying amounts on the statement of financial position.

Impairment of financial assets

The company the following types of financial assets that are subject to IFRS 9's expected credit loss model:

- Receivables from agents, brokers and policyholders;
- Reinsurance receivables;
- Intercompany receivables;
- Cash and cash equivalents; and
- Debt investments carried at FVOCI.

While intercompany receivables, reinsurance receivables and cash and cash equivalents are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Receivables from agents, brokers and policyholders

The company applies the IFRS 9 simplified approach to measuring expected credit loss (ECL) which uses a lifetime expected loss allowance for all receivables from agents, brokers and policyholders.

To measure the expected credit losses, receivables from agents, brokers and policyholders have been grouped based on shared credit risk characteristics and the days past due.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Impairment of financial assets

<u>Receivables from agents, brokers and policyholders (continued)</u>

The expected loss rates are based on the liquidation profiles of sales over a period of 36 month before 31 December 2021 or 31 December 2020, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the unemployment rate to be the most relevant macro-economic factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The credit exposure for agent, broker and policyholder receivables is $282,569,000 (2020 - $262,892,000). Movement in impairment is reconciled below.

On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for receivables from agents, brokers and policyholders:

31 December 2021	**0-60 Days**	**61-120 Days Over Due**	**121-180 Days Over Due**	**More than 180 Days Over Due**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Agent, Broker and Policyholders receivables	95,433	81,102	22,302	83,732	282,569
Expected loss rate	2.64%	4.53%	6.87%	19.12%	
Loss allowance	2,517	3,676	1,532	16,011	23,736

31 December 2020	**0-60 Days**	**61-120 Days Over Due**	**121-180 Days Over Due**	**More than 180 Days Over Due**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Agent and Broker and Policyholders receivables	88,383	54,219	19,919	100,371	262,892
Expected loss rate	2.37%	4.75%	6.62%	66.73%	
Loss allowance	2,093	2,576	1,318	65,975	71,962

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)
Impairment of financial assets (continued)

Receivables from agents, brokers and policyholders (continued)

The movement in the loss allowance is as follows:

	2021 $'000	2020 $'000
At 1 January	71,962	64,243
Write offs	(56,224)	-
Movement on loss allowance recognised in profit or loss during the year	7,998	7,719
At 31 December	23,736	71,962

Receivables from agents, brokers and policyholders are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, failure to make contractual payments for a period greater than one year, and alternative methods of debt collection have been exhausted.

Debt investments

Expected credit loss (ECL) for debt instruments at FVOCI were measured using lifetime expected losses. Management considered whether there were significant increases in credit risks associated with these investments since origination and concluded that sufficient information was unavailable to assess the credit risk at origination. Additionally, the low credit risk criteria were not met as investments were ranked below investment grade; a key criterion in classifying an investment as having a low credit risk.

The key parameters used in the ECL model, including probabilities of defaults (PDs), loss given default (LGDs) and probability-weighted scenarios were obtained from externally published information by an established rating agency.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)
Impairment of financial assets (continued)

Debt investments (continued)

Probability of default (PD)
The parameters for PDs were developed by the rating agency by tracking and analysing rating and historical default information over a 33 years' period for 132 countries and presents a 10-year issuer-weighted default study. The default rate is calculated by averaging the experiences of the issuers on a month by month basis over the 33 year period.

Loss given default (LGD)
As a base case in determining LGDs, management considered published recovery data associated with historical defaulted sovereign bonds. Based on this report, the observable loss rate on historically defaulted local bonds was on average 20%. Management is therefore of the view that a similar loss rate will be experienced on local bonds in the event of a future default. Management judgement was used to further adjust this expected loss rate for corporate and global bonds on the with the credit quality of the issuer as well as the tenure being the primary drivers as to the level of adjustment made.

Exposure at default (EAD)
EAD represents the carrying value of the financial instrument at the point of an expected default event and is limited to the contractual life of the respective instruments. Based on the nature of the securities held by the company, being non-amortising, the cash flow includes the periodic interest payment followed by lump sum upon contractual maturity. The EAD is therefore deemed by management to be the unpaid principal as well as the unpaid interest at the point of the expected default.

Forward-looking consideration
Management considered the need to adjust the key parameters to incorporate forward looking information in calculating expected credit losses. A historical assessment was performed to determine the relationship between historical default events, loss experiences and key macro-economic indicators. Macro-economic indicators considered include gross domestic product (GDP), unemployment rate as well as other factors such as the impact of any regulatory, legislative or political changes. Based on these assessments, there were no observable relationships between the historical default events or loss experiences and the macro-economic indicators. Additionally, the local economy has been relatively stable and showing signs of modest growth. Management has therefore concluded that there are no forecast events or changes in key macro-economic variables that would materially - impact the ECL parameters and as such no adjustments were made for these factors. This assessment is reviewed and monitored for appropriateness on a quarterly basis.

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)
Impairment of financial assets (continued)

Debt investments (continued)

Probability-weighted scenarios
As with any forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be different to those projected. ECL is therefore required to be measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. To achieve this, management considered the probability that the expected rating of an instrument will remain in the current rating bucket (base case), increase by one rating bucket (upside) and decrease by one rating bucket (downside).

The probability outcomes were obtained from data published by a reputable rating agency which presents an analysis of historical rating migration of debt instruments over a 33 year period.

Discounting
ECL is measured in a way that reflects the time value of money. As such, cash shortfall associated with expected defaults are discounted back to the statement of financial position date. This is done by calculating the present value of the undiscounted ECL using the original effective interest rate (EIR) on each instrument.

Debt investments at FVOCI
The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The loss allowance for debt investments at FVOCI is as follows:

	2021	**2020**
	$'000	**$'000**
At 1 January	4,440	4,440
Movement on loss allowance recognised in profit or loss during the year	2,472	-
At 31 December	6,912	4,440

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 investments;

(iv) Monitoring statement of financial position 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 transactions are often of uncertain terms 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 liabilities and insurance liabilities cash flows
The table below presents the undiscounted cash flows of the company's financial liabilities and insurance liabilities, as well as the company's insurance liabilities at the statement of financial position date, based on contractual repayment obligations.

	Within 3 Month $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
			2021		
Financial and Insurance Liabilities					
Other payables	208,785	-	-	-	208,785
Lease liability	3,465	4,523	3,658	-	11,646
Due to reinsurers	800,420	-	-	-	800,420
Claims outstanding	964,944	-	-	-	964,944
	1,977,614	4,423	3,658	-	1,985,795

	Within 1 Month $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
			2020		
Financial and Insurance Liabilities					
Other payables	133,395	-	-	-	133,395
Lease liability	3,079	3,364	2,205	-	8,648
Due to reinsurers	151,937	-	-	-	151,937
Claims outstanding	936,058	-		-	936,058
	1,224,469	3,364	2,205	-	1,230,038

Assets available to meet all the liabilities and to cover financial and insurance 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 maximising 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)

Currency risk (continued)

Concentrations of currency risk

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

	2021		
	Jamaican $	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial and Insurance assets			
Cash and deposits	1,420,800	53,437	1,474,237
Due from policyholders, brokers and agents	222,718	36,115	258,833
Due from reinsurers	954,415	105,139	1,059,554
Total financial and insurance assets	2,597,933	194,691	2,792,624
Financial and Insurance liabilities			
Other payables	126,394	86,811	213,205
Due to reinsurers	657,498	142,922	800,420
Insurance reserves	2,350,063	30,901	2,380,964
Total financial and insurance liabilities	3,133,955	260,634	3,394,589
Net financial position	(536,022)	(65,943)	(601,965)

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

	2020		
	Jamaican $	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial and Insurance assets			
Cash and deposits	520,888	224,295	745,183
Investment securities	172,082	-	172,082
Due from policyholders, brokers and agents	165,939	24,991	190,930
Due from reinsurers	353,224	10,722	363,946
Total financial and insurance assets	1,212,133	260,008	1,472,141
Financial and Insurance liabilities			
Other payables	121,491	11,904	133,395
Due to reinsurers	93,694	58,243	151,937
Insurance reserves	2,255,941	93,510	2,349,451
Total financial and insurance liabilities	2,471,126	163,657	2,634,783
Net financial position	(1,258,993)	96,351	(1,162,642)

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)
(iii) Market risk (continued)
Currency 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 an appreciation of 2% and depreciation of 8% (2020 - appreciation of 2% and a depreciation of 6%) 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 Loss before Taxation $'000
	2021		2020	
United States Dollar				
Appreciation of JMD	2	1,319	2	(1,927)
Depreciation of JMD	8	(5,272)	6	5,781

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.

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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 the statement of financial position 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.

	2021						
	Within 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial and Insurance assets							
Cash and deposits	1,139,395	302,745	-	-	-	31,797	1,473,937
Investment securities	-	30,000	-	369,602	369,160	11,287	780,049
Due from policyholders, brokers and agents	-	-	-	-	-	258,833	258,833
Due from reinsurers	-	-	-	-	-	1,059,554	1,059,554
	1,139,395	332,745	-	369,602	369,160	1,361,471	3,572,373
Financial and Insurance liabilities							
Other payables	-	-	-	-	-	208,785	208,785
Lease liability	1,087	2,193	4,231	3,471	-	-	10,982
Due to reinsurers	-	-	-	-	-	800,420	800,420
Claims outstanding	-	-	-	-	-	964,944	964,944
Unearned premiums	-	-	-	-	-	823,686	823,686
Unearned commissions	-	-	-	-	-	46,974	46,974
IBNR & ULAE	-	-	-	-	-	519,447	519,447
Unexpired risk reserve	-	-	-	-	-	25,913	25,913
	1,087	2,193	4,231	3,471	-	3,390,169	3,401,151
Total interest repricing gap	1,138,308	330,552	(4,231)	366,131	369,160	(2,028,698)	171,222

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4. Insurance and Financial Risk Management (Continued)

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

	2020						
	Within 1 Month	**1 to 3 Months**	**3 to 12**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial and Insurance assets							
Cash and deposits	515,645	228,210	-	-	-	1,328	745,183
Investment securities	-	5,097	-	30,779	136,207	223,591	395,674
Due from policyholders, brokers and agents	-	-	-	-	-	190,930	190,930
Due from reinsurers	-	-	-	-	-	363,946	363,946
Other receivables	-	-	-	-	-	29,856	29,856
	515,645	233,307	-	30,779	136,207	809,651	1,725,589
Financial and Insurance liabilities							
Other payables	-	-	-	-	-	136,279	136,279
Lease liability	905	1,828	2,528	3,387	-	-	8,648
Due to reinsurers	-	-	-	-	-	151,937	151,937
Claims outstanding	-	-	-	-	-	936,058	936,058
Unearned premiums	-	-	-	-	-	618,973	618,973
Unearned commissions	-	-	-	-	-	38,230	38,230
IBNR, PFAD & ULAE	-	-	-	-	-	645,690	645,690
Unexpired risk reserve	-	-	-	-	-	110,500	110,500
	905	1,828	2,528	3,387	-	2,637,667	2,646,315
Total interest repricing gap	514,740	231,479	(2,528)	27,392	136,207	(1,828,016)	(920,726)

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 profit or loss in the 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 risk (continued)

Interest rate sensitivity/Fair value price risk (continued)
The company is exposed to equity and bond fair value price risk because of investments held by the company classified as fair value through other comprehensive income. 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 fair value through other comprehensive income.

	Effect on Other Comprehensive Income 2021 $'000	Effect on Other Comprehensive Income 2020 $'000
Percentage change equity values:		
5% (2020 - 7%) increase	154	15,651
5% (2020 - 12.5%) decrease	(154)	(27,949)
Change in basis points - bond:		
JMD/USD 300/+100 (2020: JMD/USD +100)	(1,583)	(867)
JMD/USD 300/-50 (2020: JMD/USD -100)	1,592	867

5. Capital Management

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

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5. Capital Management (Continued)

Capital adequacy is managed and monitored by the company's management. It is calculated by the Chief Financial Officer, 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 amounted to $1,074,718,000 (2020 - $258,977,000) 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% (2020 – 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.

The company did not qualify for the relaxed MCT ratio.

As at 31 December 2021, the company achieved the minimum required level of capital based on the MCT ratio. The ratio was not achieved as at 31 December 2020.

	2021	2020
Actual MCT ratio	**286.14%**	**(48.40%)**
Minimum required MCT ratio	**250%**	**250%**

Vital to the ongoing operation of the company is its compliance with the local regulatory framework, that is, passing the Financial Services Commission (FSC) Minimum Capital Test (MCT) requirement of 250%.

The following measures were executed during the year to bring the company in compliance with the regulatory framework:

- In January 2021, the company completed a renounceable rights issue which raised gross consideration of $668 million;
- In February 2021, the company disposed of an investment property for $250 million; and
- In March 2021, the company entered into a proportional reinsurance coverage contract to reduce the company's net outstanding liabilities.

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 statement of financial position 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) Debt securities classified as FVOCI are measured at fair value based upon projected cash flows discounted at current market rates which have been determined through the use of quotations and yields obtained from independent brokers.

(ii) The fair values of quoted equity investments are based on current bid prices.

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

(iv) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts, as these instruments are expected to reprice at the prevailing market rates.

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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6. Fair Value Estimation (Continued)

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 2021			
Fair value though OCI –			
Corporate debt	-	33,413	33,413
Bank of Jamaica debt securities		746,636	746,636
	-	780,049	780,049
As at 31 December 2020			
Fair value though OCI –			
Corporate debt	-	30,318	30,318
Bank of Jamaica debt securities		141,764	141,764
Quoted equities	223,592	-	223,592
	223,592	172,082	395,674

- Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets and liabilities. These mainly comprise equities traded on the Jamaica Stock Exchange and are classified as fair value through OCI.
- 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.

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 stockholders. 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 stockholders. 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

	2021	**2020**
	$'000	**$'000**
Advertising	23,194	17,957
Amortisation and depreciation (Notes 20, 21, 31)	22,857	23,778
Asset tax	3,176	5,446
Auditor's remuneration	8,135	7,395
Bank charges	5,618	2,874
Donations and subscriptions	3,427	8,987
Computer and data processing expenses	36,543	28,538
Insurance and registration fees	15,987	7,258
Travelling	828	936
Miscellaneous	1,220	2,150
Motor vehicle expenses	499	976
Office expenses	7,334	10,536
Postage, telephone, fax and utilities	20,918	20,362
Printing and stationery	2,470	3,746
Legal and professional fees	37,229	62,485
Impairment of financial assets	10,472	5,591
Investment properties expense	264	5,775
Repairs and maintenance	5,338	4,095
Security	12,180	12,562
Staff costs (Note 9)	285,197	257,953
Administration and other expenses	502,886	489,400

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9. Staff Costs

	2021 $'000	2020 $'000
Wages and salaries	227,875	202,407
Redundancy cost	-	4,037
Payroll taxes – employer's portion	17,546	16,556
Pension costs – defined contribution	6,475	5,655
Other staff costs	33,301	29,298
	285,197	257,953

10. Investment Income

	2021 $'000	2020 $'000
Interest income	59,577	26,497
Dividend income	167	997
	59,744	27,494

11. Other Income

	2021 $'000	2020 $'000
Rental income	97	5,505
Net foreign exchange gain/(loss)	39,812	(1,410)
Gain on sale of investment properties	22,643	-
Gain on sale of property, plant & equipment	773	7,668
Service fees	29,093	-
Miscellaneous income	6,343	5,893
	98,761	17,656

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12. Taxation

Until 9 April 2020, the company's ordinary stock units were listed on the Junior Market of the JSE, at which time the stock units were migrated to the main market. Consequent on its junior listing until 8 April 2020, the company was entitled to a remission of tax up to 31 March 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 migration to the main market in 2020 disqualified the company from tax remission entitlements post the date of migration. Deferred taxes are calculated in accordance with IAS 12 based on the tax rate 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%.

	2021 $'000	2020 $'000
Current year taxation charge	37,081	-
Deferred taxation (Note 23)	40,168	(149,833)
	77,249	(149,833)

Key Insurance Company Limited
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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 $1,263,000,000 (2020 - $1,375,095,000) which may be carried forward indefinitely.

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

	2021 $'000	2020 $'000
Profit/(loss) before taxation	237,638	(449,499)
Tax calculated at a rate of 33⅓%	79,213	(149,833)
Adjusted for the effects of:		
Income not subject to tax	-	(8,861)
Expenses not deductible for tax purposes	4,584	11,435
Net effect of other charges and allowance	(6,548)	(2,574)
Tax expense/(credit)	77,249	(149,833)

13. Cash and Cash Equivalents

	2021 $'000	2020 $'000
Cash at bank and in hand	657,533	290,434
Short-term deposits (including repurchase agreements)	816,704	454,749
Cash and cash equivalents	1,474,237	745,183

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

	2021 %	2020 %
Jamaican dollar deposits	3.87	2.55
United States dollar deposits	2.71	3.00

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14. Investment Securities

	Years to Maturity 2021				
	Within1 year $'000	1 to 5 years $'000	5 to 10 years $'000	Over 10 years $'000	Total $'000
At fair value through other comprehensive income:					
Issued by:					
Government of Jamaica	-	369,602	-	369,160	738,762
Interest receivable	7,874	-	-	-	7,874
Corporate -					
Bonds	33,079	-	-	-	33,079
Interest receivable	334	-	-	-	334
	41,287	369,602	-	369,160	780,049

	Years to Maturity 2020				
	Within1 year $'000	1 to 5 years $'000	5 to 10 years $'000	Over 10 years $'000	Total $'000
At fair value through other comprehensive income:					
Issued by:					
Government of Jamaica	-	-	62,564	76,113	138,677
Interest receivable	3,087	-	-	-	3,087
Corporate -					
Bonds	-	30,000	-	-	30,000
Interest receivable	318	-	-	-	318
	3,405	30,000	62,564	76,113	172,082
Quoted equity securities					223,592
					395,674

Investment securities include securities with a face value of $45,000,000 (2020 - $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.

15. Due from Policyholders, Brokers and Agents

	2021 $'000	2020 $'000
Premium receivable	282,569	262,892
Less: Provision for impairment	(23,736)	(71,962)
	258,833	190,930

Ageing of premium receivable

	2021 $'000	2020 $'000
Within 1 month	46,692	22,365
1-3 months	79,109	66,018
Over 3 months	156,768	174,509
	282,569	262,892

16. Due from Reinsurers

Amounts recoverable from reinsurers comprise:

	2021 $'000	2020 $'000
Unearned premium - other	220,361	180,520
Recoverable on claims outstanding	728,329	155,008
Recoverable on claims IBNR	110,864	28,418
	1,059,554	363,946

During the year, the company signed a Loss Portfolio Transfer (LPT) agreement where the reinsurers promise to cover/compensate Key Insurance Company Limited for any motor loss suffered for cases reported or those that have insured and not yet reported (based on actuarial report) prior to the inception date of the contract (1 January 2021). Balances due from reinsurers in relation to claims outstanding are due within 12 months of the reporting date.

17. Other Receivables

	2021 $'000	2020 $'000
Staff loans	1,394	637
Prepayments	-	18,005
Other	-	11,214
	1,394	29,856

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

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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:

	2021 $'000	2020 $'000
Directors' emoluments -		
Fees	3,504	2,958
Remuneration	-	5,825

Key management compensation -

	2021 $'000	2020 $'000
Wages and salaries	58,891	52,475
Payroll taxes – employer's portion	5,513	4,785
Pension costs	3,291	1,748
	67,695	59,008

Fellow subsidiaries -

	2021 $'000	2020 $'000
Gross premium written	-	2,241
Interest income	3,546	-
Commission income	5,014	-
Commission expense	(30,104)	(21,356)

Ultimate parent company -

	2021 $'000	2020 $'000
Interest income	4,958	-
Interest expense	(1,304)	-

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18. Related Party Transactions and Balances (Continued)

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

	2021 $'000	2020 $'000
Fellow subsidiaries -		
Cash and short-term investments	609,339	384
Due from agents, brokers and policyholders	67,244	39,472
Other payables	13,122	21,578

	2021 $'000	2020 $'000
Ultimate parent -		
Other payables	77,393	22,353

19. Investment Properties

Investment properties related to land owned by the company. These properties were valued at current market value for the year ended 31 December 2020 by NAI Jamaica Langford and Brown qualified property appraisers and valuators. The property was sold during the year.

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

	2021 $'000	2020 $'000
At beginning of year	226,734	200,150
Disposal	(226,734)	-
Fair value gains	-	26,584
At end of year	-	226,734

The following amounts have been recognised in income in the statement of comprehensive income:

	2021 $'000	2020 $'000
Rental income arising from investment properties (Note 11)	97	5,505
Operating expenses incurred on investment properties (Note 8)	264	5,775
Gain on sale of investment properties (Note 11)	22,643	-

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20. Intangible Assets

	Computer Software
	$'000
At Cost -	
At 1 January 2020	17,790
Additions	672
At 1 January 2021	18,462
Additions	1,696
31 December 2021	20,158
Accumulated amortisation -	
At 1 January 2020	14,153
Amortisation	1,399
At 1 January 2021	15,552
Amortisation	1,590
At 31 December 2021	17,142
Net Book Value -	
31 December 2021	3,016
31 December 2020	2,910

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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
			2021			
At Cost/Valuation -						
At 1 January	190,000	24,623	54,449	9,504	51,867	330,443
Additions	-	-	3,640	-	4,561	8,201
Disposal	-	-	-	(4,372)	-	(4,372)
Transfer	-	-	(12,161)	-	12,161	-
At 31 December	190,000	24,623	45,928	5,132	68,589	334,272
Depreciation -						
At 1 January	-	21,303	39,234	4,482	33,490	98,509
Disposal	-	-	-	(4,372)	-	(4,372)
Write-off	-	-	342	-	-	342
Charge for the year	2,500	1,955	1,524	1,642	4,643	12,264
At 31 December	2,500	23,258	41,100	1,752	38,133	106,743
Net Book Value -						
31 December	187,500	1,365	4,828	3,380	30,456	227,529

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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
			2020			
At Cost/Valuation -						
At 1 January	191,048	24,623	49,257	15,437	51,340	331,705
Additions	-	-	5,192	5,133	527	10,852
Disposal	-	-	-	(11,066)	-	(11,066)
Revaluation	(1,048)	-	-	-	-	(1,048)
At 31 December	190,000	24,623	54,449	9,504	51,867	330,443
Depreciation -						
At 1 January	11,454	20,570	33,686	12,579	31,903	110,192
Revaluation	(13,884)	-	-	-	-	(13,884)
Disposal	-	-	-	(8,945)	-	(8,945)
Charge for the year	2,430	733	5,548	848	1,587	11,146
At 31 December	-	21,303	39,234	4,482	33,490	98,509
Net Book Value -						
31 December	190,000	3,320	15,215	5,022	18,377	231,934

Land and buildings were valued at current market values as at 31 December 2020. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2021 $'000	2020 $'000
Cost	133,391	133,391
Accumulated depreciation	(11,530)	(9,100)
	121,861	124,291

22. Other Payables

	2021 $'000	2020 $'000
Accrued expenses	99,627	103,782
Statutory liabilities	19,483	2,884
Due to related parties	77,393	22,353
Other	16,702	7,260
	213,205	136,279

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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 33⅓%. 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:

	2021 $'000	2020 $'000
At the beginning of the year	428,158	278,325
Deferred tax charged to other comprehensive income (Note 27)	(7,943)	-
Deferred tax (charged)/credited to profit or loss in the statement of comprehensive income (Note 12)	(40,168)	149,833
At end of year	380,047	428,158

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

	Tax Losses $'000	Accelerated Tax Depreciation $'000	Revaluation Gains on Buildings $'000	Fair Value Reserves $'000	Interest Accrued $'000	Total $'000
At 1 January 2020	310,382	1,302	(32,235)	-	(1,124)	278,325
Deferred tax credited to profit in the statement of comprehensive income	147,982	1,303	-	-	548	149,833
At 31 December 2020	458,364	2,605	(32,235)	-	(576)	428,158
Deferred tax (charged)/credited to profit in the statement of comprehensive income	(37,054)	317	4,975	(12,920)	(3,429)	(48,111)
At 31 December 2021	421,310	2,922	(27,260)	(12,920)	(4,005)	380,047

	2021 $'000	2020 $'000
Deferred tax liabilities that are expected to be settled after more than 12 months after the year end	(27,260)	(32,235)
Deferred tax assets that are expected to be recovered after more than 12 months after the year end	421,310	458,364

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24. Insurance Reserves

	2021 $'000	2020 $'000
Provision for unexpired risks	25,913	110,500
Provision for unearned premiums	823,686	618,973
Unearned commissions	46,974	38,230
Provision for claims, IBNR & UCAE	519,447	645,690
Claims outstanding	964,944	936,058
	2,380,964	2,349,451

An actuarial valuation was performed by the company's appointed actuary, Mid Atlantic Actuaries, to value the policy and claims liabilities of the company as at 31 December 2021, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles.

	Gross Liabilities 2021 $'000	Ceded 2021 $'000	Net Liabilities 2021 $'000
Provision for unexpired risks	25,913	-	25,913
Provision for unearned premiums	823,686	220,361	603,325
Unearned commissions	46,974	-	46,974
Provision for claims IBNR & UCAE	519,447	257,018	262,429
Claims outstanding	964,944	580,614	384,330
	2,380,964	1,057,993	1,322,971

	Gross Liabilities 2020 $'000	Ceded 2020 $'000	Net Liabilities 2020 $'000
Provision for unexpired risks	110,500	-	110,500
Provision for unearned premiums	618,973	180,520	438,453
Unearned commissions	38,230	-	38,230
Provision for claims IBNR & UCAE	645,690	28,418	617,272
Claims outstanding	936,058	155,008	781,050
	2,349,451	363,946	1,985,505

24. Insurance Reserves (Continued)

In his opinion dated 1 March 2022, the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2021 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 2021 were as follows, grouped by each accident year from 2005 to 2021:

(i) Claims incurred and paid for accident years 2005 onwards.

(ii) Loss adjustment expenses paid for accident years 2005 onwards.

(iii) Paid and incurred large loss amounts in each accident year from 2005 onwards.

(iv) Earned premiums for each year from 2005 to 2021.

(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

	2021 $'000	2020 $'000
Unexpired risk reserve:		
At the beginning of the year	110,500	142,209
Recognised in profit or loss	(84,587)	(31,709)
At the end of the year	25,913	110,500
Provision for unearned premium:		
At the beginning of the year	618,973	480,070
Premiums written during the year	1,914,966	1,432,083
Premiums earned during the year	(1,710,253)	(1,293,180)
At the end of the year	823,686	618,973
Unearned commissions:		
At the beginning of the year	38,230	32,053
Commissions on reinsurance premium written during the year	105,349	166,102
Earned commission recognised in profit or loss	(96,605)	(159,925)
At the end of the year	46,974	38,230

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24. Insurance Reserves (Continued)

(e) Change in insurance liabilities

	2021 $'000	**2020 $'000**
Provision for claims IBNR, net:		
At the beginning of the year	617,272	333,195
Current year recognised as part of claims expense – IBNR, net	(126,242)	(100,782)
Current year not recognised as part of claims expense – IBNR recoverable	(146,155)	390,754
Current year recognised as part of claims expense – IBNR recoverable	(82,446)	(5,895)
At the end of the year	262,429	617,272
Gross Claims Outstanding:		
At the beginning of the year	936,058	760,160
Recognised as part of claims expense in profit or loss	779,781	786,420
Gross amount paid during the year	(750,895)	(610,522)
At the end of the year	964,944	936,058
Deferred policy acquisition cost:		
At the beginning of the year	62,622	138,703
Commissions on premium written during the year	180,730	183,117
Direct premium expense incurred during the year	(160,395)	(171,328)
Change in deferred acquisition cost during year	-	(87,870)
At the end of the year	82,957	62,622
Unearned reinsurance premiums		
At the beginning of the year	180,520	385,060
Reinsurance premium ceded	599,099	489,715
Reinsurance premium incurred during the year	(559,258)	(694,255)
At the end of the year	220,361	180,520

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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 ratio 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.

	2021	
	Gross IBNR	**Net IBNR**
	$'000	**$'000**
10% increase in loss development	1,128	264
10% decrease in loss development	(266)	(222)

	2020	
	Gross IBNR	**Net IBNR**
	$'000	**$'000**
10% increase in loss development	26,727	24,808
10% decrease in loss development	(29,404)	(27,292)

25. Share Capital

	2021 $'000	**2020 $'000**
Authorised -		
700,000,000 (2020 – 700,000,000) ordinary stock units		
Issued and fully paid -		
559,323,101 (2020 – 368,460,863) ordinary stock units at no par value	903,300	235,282

In January 2021, the company raised $668 million by way of a rights issue whereby an additional 190,862,238 ordinary stock units were issued to new and existing stockholders.

26. Capital Reserve

	2021 $'000	**2020 $'000**
At end of year	57,371	57,371

During 2014, land and buildings 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 investments at fair value through other comprehensive income, investment properties and property, plant and equipment, net of deferred taxes. Fair value gains on investment properties were transferred from the fair value reserve to retained earnings subsequent to the disposal of all the investment properties held by the company.

	2021 $'000	2020 $'000
At beginning of year	479,936	459,469
Impairment on FVOCI debt instruments	-	4,440
Fair value losses on investment through OCI	(4,723)	(23,393)
Fair value gains on investment properties	-	26,584
Revaluation gains on property, plant and equipment	-	12,836
Realised gains on disposal of investment properties transferred to retained earnings	(405,165)	-
Deferred tax charged to other comprehensive income (Note 23)	(7,943)	-
At end of year	62,105	479,936

28. Earnings Per Stock Unit

	2021	2020
Net profit/(loss) from operations ($'000)	160,389	(299,666)
Weighted average number of ordinary stock units used in the denominator in calculating basic earnings per stock unit ('000)	537,884	368,461
Earnings per stock unit	**$0.30**	**($0.81)**

29. Segment Information

Management has determined the operating segments based on the reports reviewed by the General Manager (GM) 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 GM 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 underwriting gain/(loss), as included in the internal management reports that are reviewed by the company's General Manager.

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29. Segment Information (Continued)

Segment results 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.

The company's operations are located entirely in Jamaica.

	2021		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross premiums written	1,372,259	542,707	1,914,966
Reinsurance ceded	(110,072)	(489,027)	(599,099)
Net premiums written	1,262,187	53,680	1,315,867
Underwriting expenses	(1,144,098)	(92,636)	(1,236,734)
Underwriting gain/(loss)	118,089	(38,956)	79,133

No single customer accounted for 10% or more of total gross premium of the company either in 2021 or in 2020.

	2020		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross premiums written	989,389	442,694	1,432,083
Reinsurance ceded	(43,141)	(446,574)	(489,715)
Net premiums written	946,248	(3,880)	942,368
Amortisation of underwriting assets	(300,266)	(22,870)	(323,136)
Underwriting expenses	(1,076,145)	(64,320)	(1,140,465)
Underwriting loss	(430,163)	(91,070)	(521,233)

30. 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.

31. Leases

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to right of use asset and leases:

	2021	2020
	$'000	$'000
Right-of-use asset		
Property	10,124	6,575
Lease liability		
Current	7,511	6,218
Non-current	3,471	2,430
	10,982	8,648

(b) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to right of use asset and lease liability:

	2021	2020
	$'000	$'000
Depreciation charge of right-of-use assets		
Property	9,003	11,233
Interest expense	1,204	992

Liabilities from financing activity – lease

	2021	2020
	$'000	$'000
Lease liability at the beginning of the year	8,648	18,950
Addition during the year	13,476	-
Cash flows	(12,346)	(11,294)
Interest expense	1,204	992
Lease liability at the end of the year	10,982	8,648

31. Leases (Continued)

(c) The company's leasing activities
The company leases various offices which serve 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.

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.

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

32. Amortisation of Underwriting Assets

Following the acquisition in March 2020 of the majority shareholding in the company by GraceKennedy Financial Group Limited and the appointment of a new Board of Directors and Senior Management effective 31 March 2020, the Motor Quota Share Reinsurance Agreement (the MQS Agreement) was reviewed and terminated on 6 April 2020 with an effective date of 1 January 2020. The Agreement made no provision for the payment of cash or the settlement of outstanding balances upon termination and hence was terminated without recourse by either party to the Agreement. The review and termination of this Agreement were completed as part of the restructuring plan for the company's operations and the streamlining of its underwriting business to make it more profitable on a go forward basis. Upon termination of the Agreement, Management accelerated the amortisation of certain underwriting assets resulting in a one-time charge of $323 million in profit or loss for the year, comprising $235 million relating to the terminated Agreement and an amount $88 million relating to Deferred Policy Acquisition Costs.

33. Impact of Covid-19

The outbreak of the novel Coronavirus (COVID-19) became a pandemic in March 2020 and has adversely affected the global economy and way of life.

The continuous impact of COVID-19 on the company's operations and future financial performance are reviewed periodically by the Board and Management with mitigating strategies implemented to reduce any negative effects. The pandemic and the measures to control its human impact have resulted in disruptions to the Jamaican economic activities, business operations and to the insurance industry. The company continues to review its credit and financial risks while continuing to contain costs and manage cash flows.

Management has considered the consequences of COVID-19 pandemic as well as other events and conditions, and it has determined that they do not create additional material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.

The Board and Management continue to assess the pandemic and implement measures to cauterize any impact from the pandemic.