JN GENERAL INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Members of
JN GENERAL INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JN General Insurance Company Limited ("the company"), set out on pages 4 to 66, which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

To the Members of
JN GENERAL INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN GENERAL INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

KPMG

Chartered Accountants
Kingston, Jamaica

May 10, 2021

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2020

	Notes	2020 $'000	2019 $'000
ASSETS			
Intangible asset	6	12,173	11,344
Property, plant and equipment	7	279,121	284,471
Investment properties	8	133,335	137,414
Deferred taxation	9	166,968	124,762
Investments	10	4,762,542	4,856,058
Reinsurance assets	11	1,300,377	1,130,813
Securities purchased under resale agreements	12	702,820	615,547
Insurance receivables and deferred expenses	13	1,053,040	1,022,113
Taxation recoverable		95,833	46,102
Due from related entities		2,223	709
Other accounts receivable		98,766	69,561
Accrued investment income		51,566	39,417
Cash and cash equivalents		84,340	101,434
		8,743,104	8,439,745
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Bank overdraft	10(i)	5,885	-
Accounts payable and accrued charges	14	91,842	145,528
Insurance payables and deferred income	15	670,386	639,137
Lease liabilities	16	13,634	20,810
Insurance contract provisions	11	4,650,786	3,953,919
Due to related entities		17,712	16,541
Retirement benefits obligation	17	200,889	232,701
		5,651,134	5,008,636
Shareholders' equity:			
Share capital	18	72,900	72,900
Capital reserve	19	11,197	11,197
Investment revaluation reserve	20	142,670	373,404
Retained earnings		2,865,203	2,973,608
		3,091,970	3,431,109
		8,743,104	8,439,745

The financial statements on pages 4 to 66 were approved for issue by the Board of Directors on May 10, 2021 and signed on its behalf by:

_______________ Chairman
Peter Morris

_______________ Director
Christopher Hind

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

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2020

	Notes	2020 $'000	2019 $'000
Gross premiums written	11(c)	5,063,809	4,919,947
Change in gross provision for unearned premiums		(66,353)	(93,927)
Gross insurance premium revenue	11(c)	4,997,456	4,826,020
Written premiums ceded to reinsurers	11(c)	(2,742,924)	(2,573,260)
Reinsurers' share of change in provision for unearned premiums		49,063	19,026
Net insurance premium revenue		2,303,595	2,271,786
Claims expenses incurred	11(b)	(1,962,935)	(1,295,909)
Reinsurers' share of claims and benefits incurred	11(b)	194,851	50,868
Net insurance claims		(1,768,084)	(1,245,041)
Commission income	15	696,179	674,153
Commission expense	13	(352,501)	(337,409)
Net commission income		343,678	336,744
Net underwriting income before operating expenses		879,189	1,363,489
Operating expenses	21	(1,438,779)	(1,494,515)
Underwriting loss before other income/(expense) and taxation		(559,590)	(131,026)
Investment income, net	22	311,757	505,420
(Impairment)/write-back of investments	10(i)	(2,463)	17,037
Gain on disposal of intangible asset and property, plant and equipment		1,534	4,228
Other income		13,270	13,795
Foreign exchange gains/(losses)		48,759	(5,721)
Contributions to JN Foundation		(11,090)	(12,639)
(Loss)/profit before taxation		(197,823)	391,094
Taxation	23	59,563	(74,226)
(Loss)/profit for the year		(138,260)	316,868
Other comprehensive (loss)/income:			
Items that will never be reclassified to profit or loss:			
Remeasurement of retirement benefits obligation	17(d)	52,072	(11,579)
Deferred tax on retirement benefits obligation	9	(17,357)	3,860
		34,715	(7,719)
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available for sale assets		(146,548)	220,952
Released on disposal of investments		(84,186)	(243,745)
	23(c)	(230,734)	(22,793)
Total other comprehensive loss for the year		(196,019)	(30,512)
Total comprehensive (loss)/income for the year		(334,279)	286,356

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

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Year ended December 31, 2020

	Share capital (note 18) $'000	Capital reserve (note 19) $'000	Investment revaluation reserve (note 20) $'000	Retained earnings $'000	Total $'000
Balances at December 31, 2018	72,900	11,197	396,197	4,134,293	4,614,587
Comprehensive income:					
Profit for the year	-	-	-	316,868	316,868
Other comprehensive income:					
Remeasurement of retirement benefits obligation [note 17(d)]	-	-	-	(11,579)	(11,579)
Deferred tax on retirement benefits obligation (note 9)	-	-	-	3,860	3,860
Net change in fair value of available for sale assets	-	-	220,952	-	220,952
Released on disposal of investments	-	-	(243,745)	-	(243,745)
Total comprehensive (loss)/income for the year	-	-	(22,793)	309,149	286,356
Dividends:					
Preference (20%)	-	-	-	(4,860)	(4,860)
Ordinary ($30.143488 per share) (note 18)	-	-	-	(1,464,974)	(1,464,974)
Total dividends	-	-	-	(1,469,834)	(1,469,834)
Balances at December 31, 2019	72,900	11,197	373,404	2,973,608	3,431,109
Comprehensive income:					
Loss for the year	-	-	-	(138,260)	(138,260)
Other comprehensive income:					
Remeasurement of retirement benefits obligation [note 17(d)]	-	-	-	52,072	52,072
Deferred tax on retirement benefits obligation (note 9)	-	-	-	(17,357)	(17,357)
Net change in fair value of available for sale assets	-	-	(146,548)	-	(146,548)
Released on disposal of investments	-	-	(84,186)	-	(84,186)
Total comprehensive loss for the year	-	-	(230,734)	(103,545)	(334,279)
Dividends:					
Preference (20%)	-	-	-	(4,860)	(4,860)
Balances at December 31, 2020	72,900	11,197	142,670	2,865,203	3,091,970

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

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2020

	Notes	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(138,260)	316,868
Adjustments for:			
Amortisation of intangible asset	6	14,279	27,982
Depreciation of property, plant and equipment	7	37,805	38,859
Depreciation of investment properties	8	4,346	4,341
Lease interest expense	16(c)	5,591	3,332
Gain on disposal of property, plant and equipment		(1,534)	(4,228)
Gain on disposal of investments	22	(80,569)	(234,708)
Insurance contract provisions, net		527,303	59,880
Post-retirement benefit		20,260	18,630
Interest income	22	(221,244)	(251,284)
Impairment/(write back) of investments	10(i)	2,463	(17,037)
Current tax expense	23(a)	-	98,392
Deferred taxation	9,23(a)	(59,563)	(24,166)
		110,877	36,861
Changes in:			
Insurance receivables and deferred expenses		(30,927)	(244,256)
Due from related entities		(1,514)	71,059
Due to related entities		1,171	11,741
Other accounts receivable		(29,205)	31,029
Accounts payable and accrued charges		(53,686)	(19,196)
Insurance payables and deferred income		31,249	51,928
		27,965	(60,834)
Interest received		209,095	297,613
Taxes paid		(49,731)	(162,870)
Net cash provided by operating activities		187,329	73,909
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to intangible asset	6	(15,108)	(251)
Additions to property, plant and equipment	7	(32,455)	(30,938)
Additions to investment properties	8	(267)	(90)
Additions to investments, net		(146,385)	1,485,411
Proceeds on disposal of property, plant and equipment		1,534	4,228
Net cash (used)/provided by investing activities		(192,681)	1,458,360
Net cash (used)/provided by operating and investing activities c/f		(5,352)	1,532,269

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

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Cash Flows (Continued)
Year ended December 31, 2020

	Notes	2020 $'000	2019 $'000
Net cash (used)/provided by operating and investing activities b/f		(5,352)	1,532,269
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liabilities, net	16(d)	(12,767)	(9,441)
Ordinary dividends paid	18	-	(1,464,974)
Preference dividends paid		(4,860)	(4,860)
Net cash used by financing activities		(17,627)	(1,479,275)
Net (decrease)/increase in cash and cash equivalents		(22,979)	52,994
Cash and cash equivalents at beginning of year		101,434	48,440
Cash and cash equivalents at end of year		78,455	101,434
Comprised of:			
Cash and cash equivalents		84,340	101,434
Bank overdraft		(5,885)	-
		78,455	101,434

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

1. The company

JN General Insurance Company Limited ("the company") is incorporated and domiciled in Jamaica. The registered office is located at 9 King Street, Kingston. The company is a 99.5% subsidiary of JN Financial Group Limited ("parent company") which is 100% owned by The Jamaica National Group Limited ("ultimate parent"). These entities are incorporated in Jamaica under the Jamaican Companies Act.

The principal activity of the company is the underwriting of general insurance business.

2. Licence and regulations

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

3. Responsibilities of the appointed actuary and external auditors

Xavier Benarosch of Eckler Partners Limited has been appointed actuary by the Board of Directors pursuant to the Act. With respect to the preparation of financial statements, the actuary is required to carry out an actuarial valuation of management's estimate of the company's policy liabilities and report thereon to the shareholders. Actuarially determined policy liabilities consist of the provisions for, less reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive made by regulatory authorities. The actuary's report outlines the scope of his work and opinion.

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

4. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Jamaican Companies Act.

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The company has assessed them and has adopted those which are relevant to the financial statements. The adoption of these standards had no effect on the results and disclosures of the company.

Details of the company's accounting policies during the year are included in note 32.

4. Statement of compliance and basis of preparation (cont'd)

(b) Basis of preparation and measurement:

The financial statements are prepared on the historical cost basis, except for the following:

- available-for-sale financial assets are measured at fair value.
- the liability for defined-benefit obligations is recognised as the present value of the defined-benefit obligations.

(c) Functional and presentation currency:

The financial statements are presented in Jamaica dollars, which is the functional currency of the company, and are expressed in thousands of dollars unless otherwise stated.

(d) Use of estimates and judgements:

The preparation of the financial statements to conform with IFRS requires management to make estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expenses for the year then ended. Although these estimates are based on management's best knowledge of current events and actions, actual amounts could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements are described in note 5.

5. Accounting estimates and judgements

Note 26 contains information about the assumptions and uncertainties relating to insurance liability and discloses the risk factors in these contracts. Note 29 contains information about the risks and uncertainties associated with financial instruments.

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

5. Accounting estimates and judgements (cont'd)

(a) Key sources of estimation uncertainty:

(i) Post-retirement medical benefits:

The amounts recognised in the statement of financial position and profit or loss and other comprehensive income for post-retirement medical benefits and supplementary pensions paid to certain pensioners, are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The discount rate is determined based on the estimated yield on long-term government securities that have maturity dates approximating the terms of the company's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

(ii) Outstanding claims:

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

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

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

(iii) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses on receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, through default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

5. Accounting estimates and judgements (cont'd)

(a) Key sources of estimation uncertainty (cont'd):

(iv) Valuation of financial instruments:

The company's accounting policy on fair value measurements is discussed in notes 32(d) and 32(q).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the company determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other risk premia used in estimating discount rates.

Considerable judgment is required in interpreting market data to arrive at estimates of fair values for levels 2 and 3. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(v) Residual value and expected useful life of property, plant and equipment and investment property:

The residual value and expected useful life of an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change is accounted for. The useful life of an asset is defined in terms of the asset's expected utility to the company.

(b) Critical accounting judgements in applying accounting policies:

(i) Classification of financial assets:

In classifying financial assets, management makes judgement about whether the criteria are met. For example, the determination of whether a security may be classified as 'loans and receivables' or whether a security's fair value may be classified as 'Level 1' in the fair value hierarchy [note 28(ii)] requires judgement as to whether a market is active.

5. Accounting estimates and judgements (cont'd)

(b) Critical accounting judgements in applying accounting policies (cont'd):

(ii) Impairment of investment in equity securities:

Investments in equity securities are evaluated for impairment on the basis described in accounting policy [note 32(m)].

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In this respect, the company regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

(iii) Deferred tax asset:

The recognition of a deferred tax asset requires management to make assumptions concerning future taxable profits against which deferred tax assets can be recovered.

It is reasonably probable, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amounts reflected in the financial statements.

6. Intangible asset

	Customer Relationships $'000	Computer Software $'000	Total $'000
At cost:			
December 31, 2018	-	288,593	288,593
Additions	-	251	251
December 31, 2019	-	288,844	288,844
Additions	12,434	2,674	15,108
December 31, 2020	12,434	291,518	303,952
Amortisation:			
December 31, 2018	-	249,518	249,518
Charge for the year	-	27,982	27,982
December 31, 2019	-	277,500	277,500
Charge for the year	4,145	10,134	14,279
December 31, 2020	4,145	287,634	291,779
Carrying amount:			
December 31, 2020	8,289	3,884	12,173
December 31, 2019	-	11,344	11,344

7. Property, plant and equipment

	Land and buildings $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
At cost:				
December 31, 2018	322,385	396,659	36,912	755,956
Balances at January 1, 2019	322,385	396,659	36,912	755,956
Recognition of right of use on initial application of IFRS 16 [note 16(a)]	26,919	-	-	26,919
Adjusted balances at January 1, 2019	349,304	396,659	36,912	782,875
Additions	1,503	12,436	16,999	30,938
Disposals	-	(649)	(12,687)	(13,336)
December 31, 2019	350,807	408,446	41,224	800,477
Additions	24,215	8,240	-	32,455
Disposals	-	(329)	(4,634)	(4,963)
December 31, 2020	375,022	416,357	36,590	827,969
Depreciation:				
December 31, 2018	96,795	361,560	32,128	490,483
Balances at January 1, 2019	96,795	361,560	32,128	490,483
Charge for the year	14,919	20,041	3,899	38,859
Eliminated on disposals	-	(649)	(12,687)	(13,336)
December 31, 2019	111,714	380,952	23,340	516,006
Charge for the year	17,336	16,346	4,123	37,805
Eliminated on disposals	-	(329)	(4,634)	(4,963)
December 31, 2020	129,050	396,969	22,829	548,848
Carrying amounts:				
December 31, 2020	245,972	19,388	13,761	279,121
December 31, 2019	239,093	27,494	17,884	284,471

Included in land and buildings is the cost of land at $18,466,000 (2019: $18,466,000).

8. Investment properties

	Total $'000
At cost:	
December 31, 2018	173,563
Additions	90
December 31, 2019	173,653
Additions	267
December 31, 2020	173,920

8. Investment properties (cont'd)

	Total $'000
Depreciation:	
December 31, 2018	31,898
Charge for the year	4,341
December 31, 2019	36,239
Charge for the year	4,346
December 31, 2020	40,585
Carrying amount:	
December 31, 2020	133,335
December 31, 2019	137,414

	2020 $'000	2019 $'000
Fair value of investment properties (see note below)	268,174	268,174
Income earned from the properties	13,828	17,909
Expenses incurred by the properties	(9,679)	(9,923)

Investment properties are valued every three years by an independent professional valuator and in the intervening years by management, based on professional advice received.

Investment properties were valued between November and December 2019 by The C.D. Alexander Company Realty Limited on the open market basis.

Measurement of fair value:

The company's accounting policy on investment properties is disclosed in note 32(c). The following table shows the valuation technique used in measuring the fair value as well as the significant unobservable inputs used.

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key inputs and fair value measurement**
Income approach: The valuation model examines the price an investor would be prepared to pay for the right to receive a certain income stream.	• Expected market rental growth yields • Rental rates	The estimated fair value would increase/(decrease) if: (a) Expected market rental growth were higher/(lower); (b) The occupancy rates were higher/(lower);

8. Investment properties (cont'd)

Measurement of fair value (cont'd):

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key inputs and fair value measurement**
Income approach (cont'd): The model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, and current rental rates. The estimated net cash flows are discounted using current yields. Among other factors, the yield estimation considers the quality of a building and its location, tenants' credit quality and lease terms.		The estimated fair value would increase/(decrease) if (cont'd): (c) Rent-free periods were shorter/(longer); or (d) Yields were lower/(higher)

9. Deferred taxation

Deferred taxation assets are attributable to the following:

	Assets	
	2020	2019
	$'000	$'000
Intangible asset	32,301	35,757
Property, plant and equipment	31,809	22,010
Accrued investment income	(16,867)	(12,224)
Other accounts payable	5,705	2,743
Investment properties	(1,035)	(995)
Foreign exchange loss	(11,019)	(96)
Tax losses	58,053	-
Leases, net	1,058	-
Retirement benefits obligation	66,963	77,567
Net deferred tax assets	166,968	124,762

9. Deferred taxation (cont'd)

Movement in temporary differences during the year is as follows:

	2020 $'000	Recognised in income $'000 (note 23)	Recognised in other comprehensive income $'000	2019 $'000	Recognised in income $'000 (note 23)	Recognised in other comprehensive income $'000	2018 $'000
Intangible asset	32,301	(3,456)	-	35,757	5,769	-	29,988
Property, plant and equipment	31,809	9,799	-	22,010	(3,606)	-	25,616
Accrued investment income	(16,867)	(4,643)	-	(12,224)	15,002	-	(27,226)
Other accounts payable	5,705	2,962	-	2,743	987	-	1,756
Investment properties	(1,035)	(40)	-	(995)	(46)	-	(949)
Foreign exchange gain/(loss)	(11,019)	(10,923)	-	(96)	(150)	-	54
Tax losses	58,053	58,053	-	-	-	-	-
Leases, net	1,058	1,058	-	-	-	-	-
Retirement benefits obligation	66,963	6,753	(17,357)	77,567	6,210	3,860	67,497
	166,968	59,563	(17,357)	124,762	24,166	3,860	96,736

10. Investments

	2020 $'000	2019 $'000
Available-for-sale securities:		
Quoted equities	288,487	350,715
Unit trust	37,417	50,836
Government of Jamaica Securities:		
J$ local bonds	1,665,142	1,955,064
US$ global bonds	253,138	235,383
Treasury bills	253,439	-
Fixed rate indexed note	-	69,345
Bank of Jamaica certificates of deposit	1,115,000	1,060,000
Government of Barbados bond (i)	54,566	51,072
Other bonds, secured	67,036	63,517
Other bonds, unsecured	833,316	1,020,126
Certificates of deposit	195,001	-
	4,762,542	4,856,058

(i) This is stated after deducting provision for impairment of $2,463,000 (2019: Nil). During the year there was a write-back of impairment amounting to Nil (2019: $17,037,000).

Investments totalling $45,000,000 (2019: $45,000,000) are held to the order of the Financial Services Commission as required by the Insurance Act 2001 and $8,000,000 (2019: $8,000,000) to the order of National Commercial Bank Jamaica Limited as guarantee for the bank overdraft facility. The overdraft was $5,885,000 (2019: Nil) at the reporting date.

10. Investments (cont'd)

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

	2020 $'000	2019 $'000
No specific maturity	325,904	401,551
Within 3 months	1,510,010	1,981,884
3 months to 1 year	538,862	319,345
1 year to 5 years	1,248,305	1,406,871
Over 5 years	1,139,461	746,407
	4,762,542	4,856,058

The following tables present the fair value and the amount of change in the fair value of the company's financial assets as at and for the year ended December 31, 2020 and 2019, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI") and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("non-SPPI"):

	2020				
Financial assets	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$'000	$'000	$'000	$'000	$'000
Securities purchased under resale agreements (note 12)	702,820	869,708	166,888	-	-
Other investments	2,048,872	2,048,872	-	-	-
Bonds and debentures	2,387,766	2,387,766	-	-	-
Quoted equities	288,487	-	-	288,487	-
Unit Trust	37,417	-	-	37,417	-
	5,465,362	5,306,346	166,888	325,904	-

	2019				
Financial assets	Total carrying value	SPPI financial assets		Non-SPPI financial assets	
		Fair value	Change in fair value	Fair value	Change in fair value
	$'000	$'000	$'000	$'000	$'000
Securities purchased under resale agreements (note 12)	615,547	940,935	325,388	-	-
Other investments	1,129,345	1,129,345	-	-	-
Bonds and debentures	3,325,162	3,325,162	-	-	-
Quoted equities	350,715	-	-	350,715	-
Unit Trust	50,836	-	-	50,836	-
	5,471,605	5,395,442	325,388	401,551	-

10. Investments (cont'd)

Credit risk:

The following tables present the credit risk ratings of SPPI financial assets as at December 31, 2020 and 2019:

	2020		
Credit rating	Carrying value amount $'000	Fair value $'000	% of fair value
Bonds and debentures and other investments:			
B2	4,382,071	4,382,071	99
Not rated	54,566	54,566	1
	4,436,637	4,436,637	100
Securities purchased under resale agreement:			
B2	702,820	869,708	100

	2019		
Credit rating	Carrying value amount $'000	Fair value $'000	% of fair value
Bonds and debentures and other investments:			
B2	4,403,435	4,403,435	99
Not rated	51,072	51,072	1
	4,454,507	4,454,507	100
Securities purchased under resale agreement:			
B2	615,547	940,935	100

11. Reinsurance assets and insurance contract provisions

(a) Analysis of movements in insurance contract provisions:

	2020			2019		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims outstanding	2,268,489	150,068	2,118,421	1,637,975	29,567	1,608,408
Unearned premiums	2,382,297	1,150,309	1,231,988	2,315,944	1,101,246	1,214,698
	4,650,786	1,300,377	3,350,409	3,953,919	1,130,813	2,823,106

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

(b) Claims outstanding:

	2020			2019		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims notified	885,841	27,478	858,363	1,027,091	88,335	938,756
Claims incurred but not reported	752,134	2,089	750,045	721,946	37,273	684,673
Balances at January 1	1,637,975	29,567	1,608,408	1,749,037	125,608	1,623,429
Claims incurred	1,962,935	194,851	1,768,084	1,295,909	50,868	1,245,041
Claims paid in year	(1,332,421)	(74,350)	(1,258,071)	(1,406,971)	(146,909)	(1,260,062)
Change in outstanding claims provision	630,514	120,501	510,013	(111,062)	(96,041)	(15,021)
Balances at December 31	2,268,489	150,068	2,118,421	1,637,975	29,567	1,608,408
Claims notified	1,100,211	108,308	991,903	885,841	27,478	858,363
Claims incurred but not reported	1,168,278	41,760	1,126,518	752,134	2,089	750,045
Balances at December 31	2,268,489	150,068	2,118,421	1,637,975	29,567	1,608,408

Outstanding claims include gross claims payable of $31,542,000 (2019: $17,894,000) under policies issued to related parties.

(c) Unearned premiums:

	2020			2019		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Balances at January 1	2,315,944	1,101,246	1,214,698	2,222,017	1,082,220	1,139,797
Premiums written during the year	5,063,809	2,742,924	2,320,885	4,919,947	2,573,260	2,346,687
Premiums earned during the year	(4,997,456)	(2,693,861)	(2,303,595)	(4,826,020)	(2,554,234)	(2,271,786)
Balances at December 31	2,382,297	1,150,309	1,231,988	2,315,944	1,101,246	1,214,698

(d) Gross unearned premiums are analysed as follows:

	2020 $'000	2019 $'000
Liability	150,160	139,824
Motor	985,590	988,545
Pecuniary loss	5,228	4,507
Personal accident	13,451	10,882
Marine	5,930	5,427
Property	1,151,830	1,093,162
Engineering	70,108	73,597
	2,382,297	2,315,944

12. Securities purchased under resale agreements

Securities purchased under resale agreements are due from the reporting date as follows:

	2020 $'000	2019 $'000
Within 3 months	702,820	615,547

The fair value of securities held as collateral for securities purchased under resale agreements as at December 31, 2020 was $869,708,000 (2019: $940,935,000) (note 10).

13. Insurance receivables and deferred expenses

	2020 $'000	2019 $'000
Premiums receivable	857,233	821,892
Due from other insurance companies	76,158	70,711
	933,391	892,603
Less: Allowance for impairment	(35,651)	(25,430)
	897,740	867,173
Deferred commission expense	155,300	154,940
	1,053,040	1,022,113

Movement on provision for impairment of insurance and other receivables is as follows:

	2020 $'000	2019 $'000
Balance at January 1	25,430	19,562
Amount expensed during year (note 21)	11,068	5,926
Amount written-off during year	(847)	(58)
Balance at December 31	35,651	25,430

Information relating to credit risk management and maturity profile of insurance and other receivables is outlined in more detail in note 29(b).

The analysis of the deferred commission expense is as follows:

	2020 $'000	2019 $'000
Balance at January 1	154,940	143,160
Commission paid	352,861	349,189
Transfers to profit or loss	(352,501)	(337,409)
Balance at December 31	155,300	154,940

14. Accounts payable and accrued charges

	2020 $'000	2019 $'000
Accruals	46,332	92,375
General Consumption Tax (G.C.T.) and withholding tax payable	26,873	26,524
Statutory deductions	18,637	26,629
	91,842	145,528

15. Insurance payables and deferred income

	2020 $'000	2019 $'000
Due to reinsurers	330,839	283,169
Due to policyholders, brokers and agents	86,600	113,126
Deferred commission income	252,947	242,842
	670,386	639,137

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

	2020 $'000	2019 $'000
Balance at January 1	242,842	226,840
Commission received	706,284	690,155
Commission earned	(696,179)	(674,153)
Balance at December 31	252,947	242,842

16. Leases

The company leases properties for its branches. These leases typically run for a period of two (2) to three (3) years. Some of these include an option to renew after the lease period has ended. Lease payments are renegotiated after the end of the contract period to reflect market rentals. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the company is a lessee is presented below:

(a) Right-of-use assets:

	Land and buildings 2020 $'000	Land and buildings 2019 $'000
Balance at beginning of the year	20,562	-
Initial application of IFRS 16	-	26,919
Additions	-	1,503
Depreciation charge for the year	(10,102)	(7,860)
Balance at December 31, 2020	10,460	20,562

16. Leases (cont'd)

(b) Lease liabilities:

Maturity analysis – contractual undiscounted cash flows:

	2020 $'000	2019 $'000
Less than one year	11,675	10,943
One to five years	5,474	14,998
Total undiscounted lease liabilities	17,149	25,941

Lease liabilities included in the statement of financial position:

	2020 $'000	2019 $'000
Current	10,494	10,419
Non-current	3,140	10,391
	13,634	20,810

Included in the above are leases with related parties amounting to $9,651,000 (2019: $12,098,000).

(c) Amounts recognised in profit or loss:

	2020 $'000	2019 $'000
Interest on lease liabilities	5,591	3,332

(d) Amounts recognised in the statement of cash flows:

	2020 $'000	2019 $'000
Total cash outflow for leases	12,767	9,441

(e) Leases as lessor

The company leases out its investment properties consisting of its owned commercial properties. All leases are classified as operating leases from a lessor perspective, because they do not transfer substantially all of the risk and rewards incidental to the ownership of the assets. Note 8 sets out information about the company's investment properties.

16. Leases (cont'd)

(e) Leases as lessor (cont'd)

The following table sets out a maturity analysis of the lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2020 $'000	2019 $'000
Less than one year	9,045	12,837
One to two years	-	9,045
	9,045	21,882

17. Retirement benefits obligation

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

	2020 $'000	2019 $'000
Post retirement health benefits obligation	196,793	228,124
Supplementary pension benefit	4,096	4,577
	200,889	232,701

Post-retirement health benefits obligation:

(a) Liability recognised in the statement of financial position:

	2020 $'000	2019 $'000
Present value of unfunded obligations	196,793	228,124

(b) Movements in the net liability recognised in the statement of financial position:

	2020 $'000	2019 $'000
Balance at January 1	228,124	195,837
Contributions paid	(2,536)	(2,619)
Expense recognised in profit or loss	23,277	23,327
Re-measurement (gain)/loss on obligation	(52,072)	11,579
Balance at December 31	196,793	228,124

17. Retirement benefits obligation (cont'd)

Post-retirement health benefits obligation (cont'd):

(c) Expenses recognised in profit or loss:

	2020 $'000	2019 $'000
Current service costs	8,846	9,075
Interest on obligation	14,431	14,252
	23,277	23,327

(d) Included in other comprehensive income:

	2020 $'000	2019 $'000
Re-measurement (gain)/loss on obligation arising from:		
Changes in financial assumptions	(22,794)	23,028
Experience adjustments	(29,278)	(11,449)
	(52,072)	11,579

(e) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2020 %	2019 %
Discount rate	9.0	7.5
Future increases in medical premium	8.0	6.0

Assumptions regarding future mortality are based on published statistics and mortality tables.

(f) Sensitivity analysis on projected benefit obligation:

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarises how the projected benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by 0.5 percentage point. In preparing the analysis for each assumption, all others were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 0.5% reduction in the long-term discount rate, would cause some reduction in the medical trend rate.

	One-half percentage point increase $ $'000	One-half percentage point decrease $ $'000
Discount rate	(20,500)	24,051
Future medical cost	24,051	(20,500)

17. Retirement benefits obligation (cont'd)

Post-retirement health benefits obligation (cont'd):

Supplementary pension benefit:

The company provides supplementary pension for 3 pensioners (2019: 3); the defined benefit obligation in respect of these pensioners was $4,096,000 at December 31, 2020 (2019: $4,577,000).

18. Share capital

	2020 $'000	2019 $'000
Authorised:		
75,000,000 ordinary shares of no par value		
25,000,000 - 20% cumulative preference shares of no par value		
Issued and fully paid:		
48,600,000 ordinary shares	48,600	48,600
24,300,000 - 20% cumulative preference shares	24,300	24,300
	72,900	72,900

The preference shares carry voting rights of one vote for each share held.

During the year the company declared and paid interim dividends on ordinary shares of $Nil (2019: $1,464,974,000) to its shareholders on record as at the date of declaration of the dividends.

19. Capital reserve

	2020 $'000	2019 $'000
Realised:		
Gains on disposal of investments and property, plant and equipment	5,749	5,749
Capital dividends received	5,448	5,448
	11,197	11,197

20. Investment revaluation reserve

Investment revaluation reserve represents unrealised gains/losses arising on revaluation of available-for-sale securities.

21. Operating expenses

	2020 $'000	2019 $'000
Administration	532,207	501,827
Employee costs (note 31)	699,075	739,434
Directors' emoluments - non-executive	8,750	10,066
- executive	19,611	27,451
Advertising and promotions	76,783	47,375
Auditors' remuneration	12,884	12,884
Bad debts written-off (note 13)	11,068	5,926
Depreciation and amortisation	52,084	66,841
Legal and professional fees	26,317	82,711
	1,438,779	1,494,515

22. Investment income

	2020 $'000	2019 $'000
Interest income - available-for-sale financial assets	221,244	251,284
Dividend income – available-for-sale financial assets	5,794	11,442
Rental income, net	4,150	7,986
	231,188	270,712
Net gain on disposal of available-for-sale financial assets	80,569	234,708
Total investment income, net	311,757	505,420

23. Taxation

(a) The charge for taxation is based on profit for the year adjusted for tax purposes and comprises the following:

	2020 $'000	2019 $'000
(i) Current taxation:		
Income tax at 33⅓%	-	98,392
(ii) Deferred taxation:		
Origination and reversal of temporary differences (note 9)	(59,563)	(24,166)
	(59,563)	74,226

Deferred tax is computed at 33⅓%.

23. Taxation

(b) Reconciliation of actual tax expense:

The effective tax rate was 30.11% (2019: 18.98%) of pre-tax (loss)/profits compared to a statutory tax rate of 33⅓%. The actual expense differed from the "expected" tax expense for the year as follows:

	2020 $'000	2019 $'000
(Loss)/profit before taxation	(197,823)	391,094
Computed "expected" tax charge at 33⅓%	(65,941)	130,365
Depreciation, amortisation and capital allowances	2,149	4,416
Other	13,711	8,992
Tax exempt revenues	58	(1,939)
Capital gains	(9,540)	(67,608)
	(59,563)	74,226

(c) As at December 31, 2020, subject to the agreement of The Commissioner, Tax Administration Jamaica, tax losses available for offset against future taxable profits was $202,948,669 (2019: Nil). As at January 1, 2014, tax losses may be carried forward indefinitely; however, the amount that can be utilised in any one year is restricted to 50% of the current year's taxable profits.

(d) There is no taxation on other comprehensive income/(loss) items that are or may be reclassified to profit or loss.

24. Related entities

(a) Definition of related party:

A related party is a person or entity that is related to the company (reporting entity).

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

   i. has control or joint control over the reporting entity;

   ii. has significant influence over the reporting entity; or

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

b. An entity is related to a reporting entity, if any of the following conditions applies:

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

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

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

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

24. Related entities (cont'd)

(a) Definition of related party (cont'd)

b. An entity is related to a reporting entity, if any of the following conditions applies:

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

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

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

viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity (or to a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(b) The statement of financial position includes balances, arising in the ordinary course of business with related parties, as follows:

	2020 $'000	2019 $'000
(i) JN Bank Limited:		
Cash and cash equivalents	33,128	48,979
Certificates of deposit	195,001	-
Accrued investment income	2,053	247
Premium receivable	59,167	58,951
Due from related entities	2,203	689

	2020 $'000	2019 $'000
(ii) JN Fund Managers Limited:		
Due to related entity	(5,000)	(2,500)
(iii) The Jamaica Automobile Association (Services) Limited:		
Due to related entity	(1,159)	(5,942)
(iv) The Creative Unit Limited:		
Accounts payable	(10,875)	(1,683)
(v) JN Financial Group Limited:		
Due to parent company	(5,207)	-
(vi) JN Group Limited:		
Due to related entity	(11,553)	(8,049)
(vii) JN Foundation:		
Due from related entity	20	20

24. Related entities (cont'd)

(c) The profit or loss includes the following income earned from, and expenses incurred in, transactions with related entities. The transactions were in the ordinary course of business.

			2020 $'000	2019 $'000
Income:				
Management fee	-	related entity	600	600
Rental income	-	related entity	2,082	1,911
Interest income	-	fellow subsidiary	4,684	11,063
Gross written premiums	-	fellow subsidiaries	132,124	107,465
	-	JN Pension Fund	1,664	1,605
	-	parent company	1,545	1,142
	-	ultimate parent company	12,916	12,533
Expenses:				
IT services	-	ultimate parent company	121,400	77,122
Life insurance premium	-	fellow subsidiary	7,058	6,640
Management fees	-	parent company	23,351	17,771
	-	fellow subsidiary	2,604	2,604
	-	ultimate parent company	107,437	115,335
Investment management fees	-	fellow subsidiary	5,000	5,000
Advertising	-	fellow subsidiary	57,567	37,129
Rental expense	-	fellow subsidiary	6,873	6,362
Client assistance and fleet management services	-	related entity	41,970	69,933
Telephone expenses	-	related entities	1,101	1,074
Repairs and maintenance	-	related entities	1,362	2,874

Transactions with key management personnel (director and senior executives):
Short-term employment benefits:

	2020 $'000	2019 $'000
Salaries, included in employee costs (note 31)	46,328	65,055

25. Reinsurance limits

The company has property catastrophe reinsurance up to a maximum of $65.26 billion (2019: $64.33 billion) of which the Property and Condominium Strata Quota Share is $52.71 billion (2019: $52.61 billion) and Engineering Quota Share and surplus is $6.03 billion (2019: $6.06 billion) and Catastrophe Excess of Loss $6.52 billion (2019: $5.66 billion) per event under which it is liable for the first $400 million (2019: $400 million) of losses in accordance with the terms of the treaty. Motor catastrophe reinsurance cover is US$17.5 million (2019: US$10 million) per event. The company limits its net exposure to a maximum amount on any one risk (property and engineering) or loss (the other classes) of US$900,000 (2019: US$900,000) for property claims, US$50,000 (2019: US$12,000) on contractors all risks and other engineering exposures, $25 million on performance, tender and mobilisation bonds, $10 million on motor, personal accident, public and employer's liability and fidelity bonds; and $5 million on fidelity guarantee bonds for the years ended December 31, 2020 and 2019.

26. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

The company's management of insurance and financial risk is a critical aspect of the business.

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

The principal types of policies written by the company are:

- Liability insurance
- Property insurance
- Motor insurance

(a) Underwriting policy:

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

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

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

The Board of Directors approves the underwriting strategy which is set out in an annual business plan and management is responsible for the attainment of the established objectives.

(b) Reinsurance strategy:

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

Ceded reinsurance results in credit risk. The company manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which have favourable credit ratings as determined by a reputable rating agency. The company monitors the financial condition of re-insurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria and for monitoring its adequacy on an ongoing basis. Credit risk on reinsurance is discussed in more detail in note 29(b).

26. Insurance risk management (cont'd)

(c) Terms and conditions of general insurance contracts:

All general insurance contracts are issued for one year or less. The table below provides an overview of the terms and conditions of general insurance contracts written by the company and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend:

Type of contract	Terms and conditions	Key factors affecting future cash flows
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to bodily injury.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. The majority of bodily injury claims have a relatively long tail. In general, these claims involve higher estimation uncertainty.
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay. Property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.

26. Insurance risk management (cont'd)

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

Type of contract	Terms and conditions	Key factors affecting future cash flows
Motor	Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and bodily injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.	In general, claims reporting lags are minor and claim complexity is relatively low. The frequency of claims is affected by excessive speeding, the deteriorating condition of the road network, failure of some motorists to obey traffic signals and the road code and an overall increase in the incidence of motor vehicle accidents. The number of claims is also correlated with economic activity, which also affects the amount of traffic activity. The bodily injury claims have a relatively long tail.

Liability contracts:

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, rating and reinsurance. The company monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten.

Property contracts:

The risks relating to property contracts are managed primarily through the pricing process. The company re-prices each contract to reflect the continually evolving risk profile. The company uses strict underwriting criteria to ensure that the risk of losses is acceptable.

Motor contracts:

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

26. Insurance risk management (cont'd)

(d) Risk exposure and concentrations of risk:

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

	Liability $'000	Property $'000	Motor $'000	Other $'000	Total $'000
At December 31, 2020					
Gross	269,092	86,246	1,897,561	15,590	2,268,489
Net of reinsurance	215,691	23,702	1,871,561	7,467	2,118,421
At December 31, 2019					
Gross	172,850	23,476	1,437,888	3,761	1,637,975
Net of reinsurance	171,392	4,703	1,430,561	1,752	1,608,408

(e) Claims development:

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

Analysis of net claims development:

	Accident year						
	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
Estimate of cumulative claims at end of accident year	1,945,656	1,285,664	1,212,574	1,102,581	1,117,711	1,285,601	-
- one year later	1,852,454	1,186,366	1,175,304	1,062,774	1,227,747		-
- two years later	1,826,334	1,205,337	1,229,303	1,198,954	-		-
- three years later	1,805,863	1,202,972	1,343,433	-	-		-
- four years later	1,862,365	1,285,096	-	-	-		-
- five years later	1,968,905	-	-	-	-		-
Estimate of cumulative claims	1,968,905	1,285,096	1,343,433	1,198,954	1,227,747	1,285,601	8,309,736
Cumulative payments	(1,695,640)	(1,118,476)	(1,141,968)	(937,562)	(864,213)	(433,456)	(6,191,315)
Net outstanding liabilities	273,265	166,620	201,465	261,392	363,534	852,145	2,118,421

27. Concentration of insurance risks

A key aspect of the insurance risk faced by the company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon its liabilities. Such concentration may arise from a single insurance contract or through a portfolio of related contracts.

The main concentration risk to which the company is exposed is natural disasters. By their nature, the timing and frequency of these events are uncertain. They represent a significant risk to the company because the occurrence of an event could have a significantly adverse effect on its cash flows.

The company's key methods in managing these risks are twofold:

(a) Firstly, the risk is managed through the establishment of an appropriate underwriting strategy and its implementation by means of the company's underwriting policy [note 26(a)].

(b) Secondly, the risk is managed through the use of reinsurance [note 26(b)]. The company arranges proportional reinsurance at the risk level and purchases excess of loss cover for motor, liability and property business. The company assesses the costs and benefits associated with the reinsurance programme on a regular basis.

28. Fair values of financial instruments

(i) Fair values were estimated as follows:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Financial instruments	Method
Government of Jamaica securities and other corporate bonds.	Determined at the reporting date using prices published by a broker. Where prices are not available, fair value is assumed to approximate amortised cost.
Government of Jamaica US$ Global bonds and other corporate bonds.	Prices of bonds at reporting date as quoted by broker/dealer, where available.
Cash and cash equivalents, short-term investment, insurance and other receivables, insurance and other payables, reinsurance assets and insurance contract provisions.	Assumed to approximate their carrying values.
Quoted equities	Bid prices published by the Jamaica Stock Exchange.
Unitised funds	Unit prices provided by the fund manager.

28. Fair values of financial instruments (cont'd)

(i) Fair values were estimated as follows (cont'd):

The following table sets out the fair values of financial instruments using the valuation methods and assumptions described above. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as property, plant and equipment.

	2020		2019	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Financial assets:				
Securities purchased under resale agreements	702,820	869,708	615,547	940,935
Investments	4,762,542	4,762,542	4,856,058	4,856,058
Insurance receivables	897,740	897,740	867,173	867,173
Accrued investment income	51,566	51,566	39,417	39,417
Due from related entities	2,223	2,223	709	709
Reinsurance assets	150,068	150,068	29,567	29,567
Cash and cash equivalents	84,340	84,340	101,434	101,434
	6,651,299	6,818,187	6,509,905	6,835,293
Financial liabilities:				
Bank overdraft	5,885	5,885	-	-
Accounts payable	91,842	91,842	145,528	145,528
Insurance payables	417,439	417,439	396,295	396,295
Insurance contract provision	2,268,489	2,268,489	1,637,975	1,637,975
Due to related entities	17,712	17,712	16,541	16,541
	2,801,367	2,801,367	2,196,339	2,196,339

(ii) Determination of fair value and fair value hierarchy:

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

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

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

28. Fair values of financial instruments (cont'd)

(ii) Determination of fair value and fair value hierarchy (cont'd):

The company considers relevant and observable market prices in its valuations where possible. The table below analyses available for sale financial instruments which are carried at fair value.

	2020			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Investments	325,904	4,436,638	-	4,762,542

	2019			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Investments	401,551	4,454,507	-	4,856,058

29. Financial risk management

(a) Overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the company's financial risk management framework. The Board and management have established the Audit Committee, Investment and Loans Committee and the Risk and Compliance Unit, which are responsible for developing and monitoring risk management policies in their specific areas. These committees and unit have both executive and non-executive members and report to the Board of Directors on their activities. The company's risk management policies are established to identify, assess and measure the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

29. Financial risk management (cont'd)

(a) Overview (cont'd)

The focus of financial risk management for the company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to, within the policy guidelines, optimise the net risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

The Audit Committee is responsible for monitoring compliance with the company's risk management policies and procedures. The Audit Committee is assisted by the Internal Audit Department which undertakes cyclical reviews of risk management controls and procedures, the results of which are reported to the head of the Risk and Compliance Unit, the Audit Committee and the Board of Directors.

The company manages financial risk by matching the timing of cash flows from assets and liabilities. The company actively manages its investments using an approach that balances quality, diversification, liquidity and return. The portfolio is reviewed on a periodic basis, as are investment guidelines and limits, with the objective of ensuring that the company can meet its obligations without undue cost and in accordance with its internal and regulatory capital requirements.

(b) Credit risk

Credit risk is the risk of financial loss to the company if a counterparty to a financial instrument fails to meet its contractual obligations. With the exception of Government of Jamaica securities, there is no significant concentration of credit risk related to liquid fund and debt securities.

The company's key areas of exposure to credit risk include:

(i) debt securities and cash balances
(ii) amounts due from policyholders
(iii) amounts due from intermediaries
(iv) reinsurers' share of insurance liabilities
(v) amounts due from reinsurers in respect of payments already made to policyholders.
(vi) Amounts due from related entities

Cash and cash equivalents:

Cash and Cash equivalents is managed in line with the company's policy. Excess funds are invested for short periods of time, depending on the company's cash flow requirements. These are held with reputable financial institutions and collateral is not required for such accounts as management regards the institutions as strong.

29. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Investment securities and resale agreements:

These debt securities are mainly government issued debt for which risk of default is considered low by regulators. The company observes the concentration limits as prescribed by the Insurance Regulations. The company is in compliance with Insurance Regulations, 2001 and the company's Investment and Loan Policy.

At the reporting date, the maximum exposure is represented by the carrying amounts of financial assets shown on the statement of financial position. There was no change in the company's exposure to credit risk, or the manner in which it manages and measures credit risk.

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

Management of credit risk

The company manages its credit risk in respect of debt securities by investing mainly in government issued debts, debts secured by government issued securities and financial institutions which management regards as reputable and sound. These entities are regularly reviewed and risk rated by the Group Risk and Compliance Unit.

Its exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process.

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

The company also operates a policy to manage its reinsurance counterparty exposures, and assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

All related party transactions are pre-authorised and approved by management during the budgeting process and subsequently in the ordinary course of business.

29. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

	AA $'000	A $'000	B $'000	SD $'000	Not rated $'000	Total $'000
December 31, 2020						
Financial assets						
Carrying amount	-	-	5,084,892	-	54,566	5,139,458
Reinsurance assets (excluding unearned premium reserve):						
Carrying amount	-	150,068	-	-	-	150,068
Insurance and other receivables (excluding prepayments)						
Impaired	-	-	-	-	35,651	35,651
Neither past due nor impaired	-	-	-	-	416,062	439,843
Past due but not impaired	-	-	-	-	564,816	541,035
Carrying amount	-	-	-	-	1,016,529	1,016,529
Cash and cash equivalents:						
Carrying amount	-	-	-	-	84,340	84,340
	-	150,068	5,084,892	-	1,155,435	6,306,055

	AA $'000	A $'000	B $'000	SD $'000	Not rated $'000	Total $'000
December 31, 2019						
Financial assets						
Carrying amount	-	-	5,018,813	-	51,241	5,070,054
Reinsurance assets (excluding unearned premium reserve):						
Carrying amount	-	29,567	-	-	-	29,567
Insurance and other receivables (excluding prepayments)						
Impaired	-	-	-	-	25,430	25,430
Neither past due nor impaired	-	-	-	-	373,235	373,235
Past due but not impaired	-	-	-	-	551,864	551,864
Carrying amount	-	-	-	-	950,529	950,529
Cash and cash equivalents:						
Carrying amount	-	-	-	-	101,434	101,434
	-	29,567	5,018,813	-	1,103,204	6,151,584

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

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

29. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Concentrations of credit risk:

The specific concentration of risk from one counterparty or group of connected counterparties with receivables of $25 million or more are as follows:

	2020 $'000	2019 $'000
Allied Insurance Brokers Limited	50,245	58,910
Billy Craig Insurance Brokers Limited	83,921	73,427
Gallagher Insurance Brokers Jamaica Limited	76,668	78,768
Desmond Mair Insurance Brokers Limited	42,897	44,857
Fraser Fontaine & Kong Insurance Brokers	26,459	26,303
Jamaica Citadel Insurance Brokers	26,639	36,717
MGI Brokers Limited	90,542	79,085
Nationwide Insurance Agents & Consultants	55,510	60,381
Thwaites Finson Sharp Insurance Brokers	68,152	62,475
JMMB Insurance Brokers	31,843	-
	552,876	520,923

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

	2020				
	Less than 45 days $'000	46-60 days $'000	More than 60 days $'000	Not aged $'000	Total $'000
Receivable arising from insurance and reinsurance contracts					
- contract holders	73,704	10,900	61,138	-	145,742
- agents, brokers and intermediaries	183,062	84,410	444,017	76,158	787,649
	256,766	95,310	505,157	76,158	933,391
Allowance for impairment	-	-	(35,651)	-	(35,651)
	256,766	95,310	469,506	76,158	897,740

29. Financial risk management (cont'd)

(b) Credit risk (cont'd)

Concentrations of credit risk (cont'd):

	2019				
	Less than 45 days	46-60 days	More than 60 days	Not aged	Total
	$'000	$'000	$'000	$'000	$'000
Receivable arising from insurance and reinsurance contracts					
- contract holders	68,540	10,541	66,343	-	145,424
- agents, brokers and intermediaries	176,058	81,419	418,991	70,711	747,179
	244,598	91,960	485,334	70,711	892,603
Allowance for impairment	-	-	(25,430)	-	(25,430)
	244,598	91,960	459,904	70,711	867,173

Assets that are individually impaired:

The analysis of overall credit risk exposure indicates that the company has insurance and other receivables and investments that are impaired at the reporting date. The assets that are individually impaired are analysed below:

	2020		2019	
	Gross	Net	Gross	Net
	$'000	$'000	$'000	$'000
Investments	-	-	68,109	51,072
Insurance and other receivables	1,032,157	996,506	962,164	936,734
	1,032,157	996,506	1,030,273	987,806

The above assets have been individually assessed as impaired after considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

(c) Liquidity risk

Liquidity risk is the potential for loss to the company arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Liquidity risk is broken down into two primary categories:

i. *Funding Liquidity Risk* - the risk that the company will not be able to meet the expected and unexpected current and future cash flows and collateral needs without affecting either its daily operations or its financial condition; and

29. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

ii. *Asset/Market Liquidity Risk* - the risk that the company will not be able to liquidate assets in an orderly fashion and the resulting loss on liquidation. This usually stems from illiquid markets or market disruptions.

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently, the company invests in marketable securities that can be readily realised as its obligations under insurance contracts fall due, and in the event of reasonably foreseeable abnormal circumstances. The company also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The company is subject to a liquidity limit imposed by the regulator. The key measurement used for assessing liquidity risk is the ratio of liquid assets (as defined) to total liabilities. This ratio at the reporting date was 94% (2019: 104%). The level set by the regulator is 95%.

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

	2020						
		Contractual undiscounted cash flows					
	Carrying Amount $'000	Total cash outflow $'000	Less than 3 months $'000	3-12 months $'000	1-2 years $'000	2 -5 years $'000	More than 5 years $'000
Financial liabilities							
- Accounts payable and accrued charges	91,842	91,842	91,842	-	-	-	-
- Insurance payables	417,439	417,439	417,439	-	-	-	-
- Lease liabilities	13,634	13,634	2,624	7,870	3,140	-	-
- Bank overdraft	5,885	5,885	5,885	-	-	-	-
- Due to related parties	17,712	17,712	17,712	-	-	-	-
Total financial liabilities	546,512	546,512	535,502	7,870	3,140	-	-
Insurance contract liabilities:							
- Claims outstanding	2,268,489	2,268,489	60,598	843,771	655,848	612,761	95,511
	2,815,001	2,815,001	596,100	851,641	658,988	612,761	95,511

29. Financial risk management (cont'd)

(c) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

	2019						
	Contractual undiscounted cash flows						
	Carrying Amount $'000	Total cash outflow $'000	Less than 3 months $'000	3-12 months $'000	1-2 years $'000	2 -5 years $'000	More than 5 years $'000
Financial liabilities							
Accounts payable and accrued charges	145,528	145,528	145,528	-	-	-	-
Insurance payables	396,295	396,295	396,295	-	-	-	-
Lease liabilities	20,810	20,810	2,604	7,815	10,391	-	-
- Due to related parties	16,541	16,541	16,541	-	-	-	-
Total financial liabilities	579,174	579,174	560,968	7,815	10,391	-	-
Insurance contract liabilities:							
- Claims outstanding	1,637,975	1,637,975	64,726	667,405	470,590	316,099	119,155
	2,217,149	2,217,149	625,694	675,220	480,981	316,099	119,155

There was no change in the nature of exposure to liquidity risk which the company is subjected to or its approach to measuring and managing the risk during the year.

(d) Market risk

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

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

Management of market risk:

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

29. Financial risk management (cont'd)

(d) Market risk (cont'd)

Management of market risk (cont'd):

(i) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and arises primarily from the company's investments.

The company manages its interest rate risk by regularly re-evaluating the yield, duration and modified duration on given financial instruments and by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

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

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

The following table summarises the carrying amounts of recognised assets, liabilities and equity to arrive at the company's interest rate gap based on the earlier of contractual repricing or maturity dates. There were no off-balance sheet financial instruments giving rise to interest rate risk.

	2020						
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 1 year $'000	Non-rate sensitive $'000	Total $'000	Weighted average interest rate %
Assets							
Investments	-	1,510,010	538,862	2,387,766	325,904	4,762,542	5.83
Securities purchased under resale agreements	-	702,820	-	-	-	702,820	3.5
Insurance and other receivables	-	-	-	-	996,506	996,506	
Due from related parties	-	-	-	-	2,223	2,223	
Cash and cash equivalents	84,340	-	-	-	-	84,340	0.72
Total financial assets	84,340	2,212,830	538,862	2,387,766	1,324,633	6,548,431	
Liabilities							
Bank overdraft	5,885	-	-	-	5,885	5,885	
Insurance payables, accounts payable and accrued charges	-	-	-	-	509,281	509,281	
Due to related entities	-	-	-	-	17,712	17,712	
Total financial liabilities	5,885	-	-	-	526,993	532,878	
On-statement of financial position gap, being total interest rate sensitivity gap	78,455	2,212,830	538,862	2,387,766	797,640	6,015,553	
Cumulative gap	78,455	2,291,285	2,830,147	5,217,913	6,015,553	-	

29. Financial risk management (cont'd)

(d) Market risk (cont'd)

Management of market risk (cont'd):

(i) Interest rate risk (cont'd):

	2019						
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 1 year $'000	Non-rate sensitive $'000	Total $'000	Weighted average interest rate %
Assets							
Investments	-	1,981,884	319,345	2,153,278	401,551	4,856,058	5.90
Securities purchased under resale agreements	-	615,547	-	-	-	615,547	4.25
Insurance and other receivables	-	-	-	-	936,734	936,734	
Due from related parties	-	-	-	-	709	709	
Cash and cash equivalents	101,434	-	-	-	-	101,434	0.73
Total financial assets	101,434	2,597,431	319,345	2,153,278	1,338,994	6,510,482	
Liabilities							
Insurance payables, accounts payable and accrued charges	-	-	-	-	541,823	541,823	
Due to related entities	-	-	-	-	16,541	16,541	
Total financial liabilities	-	-	-	-	558,364	558,364	
On-statement of financial position gap, being total interest rate sensitivity gap	101,434	2,597,431	319,345	2,153,278	780,630	5,952,118	
Cumulative gap	101,434	2,698,865	3,018,210	5,171,488	5,952,118	-	

The sensitivity of the company's financial assets and liabilities to interest rate risk is monitored using the following scenarios:

	Increase in interest rate		**Decrease in interest rate**	
	2020	2019	2020	2019
J$ denominated instruments	100 basis points	100 basis points	100 basis points	100 basis points
US$ denominated instruments	100 basis points	100 basis points	100 basis points	100 basis points

Fair value sensitivity analysis for fixed rate instruments:

An increase/decrease, using the above scenarios, would adjust reserves by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2020		2019	
	Effect on other comprehensive income		Effect on other comprehensive income	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Other comprehensive income	(84,245)	99,809	(58,987)	65,883

29. Financial risk management (cont'd)

(d) Market risk (cont'd)

Management of market risk (cont'd):

(i) Interest rate risk (cont'd):

Cash flow sensitivity analysis for variable rate instruments:

An increase/decrease using the above scenarios would adjust reserves and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Effect on profit	
	Increase	Decrease
	$'000	$'000
December 31, 2020		
Variable rate instruments	4,565	(4,565)
December 31, 2019		
Variable rate instruments	10,123	(10,123)

There has been no change in the company's exposure to interest rate risk or the manner in which it manages and measures the risk during the year.

(ii) Equity price risk:

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

A change in the market price at the reporting date would result in an increase/(decrease), respectively, in equity and profit before taxation by the amounts shown below.

	2020		2019	
	Equity	Loss before taxation	Equity	Profit before taxation
	$'000	$'000	$'000	$'000
7% (2019: 10%) increase	20,194	-	35,072	-
12.5% (2019: 10%) decrease	(31,727)	(4,334)	(34,019)	(1,053)

There has been no change in the company's exposure to equity price risk or the manner in which it measures and manages risk during the year.

29. Financial risk management (cont'd)

(d) Market risk (cont'd)

Management of market risk (cont'd):

(iii) Foreign currency risk:

Foreign currency risk is the risk that the market value of, or cash flow from, financial instruments will fluctuate because of changes in foreign exchange rates.

The company incurs foreign currency risk primarily on investments that are denominated in a currency other than the Jamaica dollar. The principal foreign currency risks of the company are denominated in United States dollars (US$). The company ensures that the net exposure is kept to an acceptable level by monitoring its daily positions against approved limits.

At the reporting date, net foreign currency asset exposure was as follows:

	2020	2019
United States dollar (US$'000)	3,020	3,791
Pounds Sterling (£'000)	-	6

Exchange rates were as follows:

	GB£	US$
At December 31, 2020 (J$)	190.32	141.71
At December 31, 2019 (J$)	169.37	131.18

Sensitivity analysis:

Movement of J$ against the US$ and GBP	Increase/(decrease) in profit before taxation			
	2020	2020	2019	2019
	$'000	$'000	$'000	$'000
6% (2019: 6%) weakening (GBP/USD)	2	23,337	57	27,311
2% (2019: 4%) strengthening (GBP/USD)	(1)	(7,779)	(38)	(18,208)

There has been no change in the company's exposure to foreign currency risk or the manner in which it manages and measures the risk during the year.

29. Financial risk management (cont'd)

(e) Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Group's Risk and Compliance Unit and in daily operations to the senior management team of the company.

This responsibility is supported by the development of overall JN Group standards for the management of operational risk in the following areas:

- risk policies/guidelines for assisting management to understand the ways in which risks can be measured, managed, identified and controlled;
- requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of business continuity programmes including contingency plans, testing and training;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

The Group Risk and Compliance Unit conducts frequent operational risk reviews of business lines in keeping with established policies and is supported with independent reviews undertaken by the Group's Internal Audit Unit. The results of all operational risk reviews are discussed with the management of the business unit to which they relate and the recommendations and required actions agreed. Summaries of the operational risk reviews are submitted to the Audit Committee, and to the Board of Directors.

There has been no change in the company's exposure to operational risk or the manner in which it managed the risk during the year.

30. Capital management

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

(i) To comply with the capital requirements set by the regulators of the insurance industry within which the company operates;

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

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

There has been no change to the company's approach to managing or measuring capital.

Regulatory capital:

The company's main regulator is the Financial Services Commission (FSC) which monitors the capital requirements for the company. General insurers must maintain at least a minimum level of assets, capital and surplus to meet the liabilities of the company. The FSC requires the ratio of available assets to required assets to be 250% (2019: 250%) under the terms of the Minimum Capital Test (MCT).

The MCT ratio attained by the company at December 31, 2020 was 265% (2019: 288%).

31. Employee costs

	2020 $'000	2019 $'000
Salaries and wages	474,887	446,209
Severance pay	-	13,857
Incentive awards	24,110	77,902
Pension	24,085	20,843
Other employee costs	175,993	180,623
	699,075	739,434

32. Significant accounting policies

The company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Intangible asset:

(i) Computer software:

Expenditure relating to the acquisition of computer software is measured at cost, less accumulated amortisation and impairment losses [note 32(n)].

32. Significant accounting policies (cont'd)

(a) Intangible asset (cont'd):

(ii) Amortisation:

Amortisation is charged to profit or loss on the straight-line basis over the estimated useful lives of the intangible assets, unless such lives are infinite.

The estimated useful life of computer software is 3 years.

(iii) Customer relationships:

This represents the carrying value of acquired customer relationships, primarily for insurance business and is measured at cost less impairment losses.

(b) Property, plant and equipment and depreciation:

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses [note 32(n)]. Costs include expenditures that are directly attributable to the acquisition of the assets. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be reliably measured. The cost of day-to-day servicing of property, plant and equipment is recognised in the profit or loss as incurred.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Property, plant and equipment, with the exception of freehold land, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates, to write down the assets to their estimated residual values at the end of their expected useful lives. The depreciation rates are as follows:

Freehold buildings	2½%
Furniture and fixtures	10%
Office equipment	20%
Motor vehicles	20%
Computers	33⅓%
Right of use asset	33⅓% - 50%

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

32. Significant accounting policies (cont'd)

(c) Investment properties:

Investment properties are measured at cost, less accumulated depreciation and impairment losses [note 32(n)]. Depreciation is charged on the straight-line basis at 2½% annually.

Rental income from investment property is recognised in profit or loss on the straight-line basis over the term of the lease.

(d) Investments:

Available-for-sale investments are stated at fair value, except, where fair value cannot be reliably determined, they are stated at cost, with any movements in fair value included in investment revaluation reserve. The fair value of available-for-sale investments is based on their quoted market bid price at the reporting date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

Available-for-sale investments are recognised or derecognised by the company on the date it commits to purchase or sell the investments.

Other investments are recognised or derecognised on the date they are transferred to/by the company.

(e) Securities purchased under resale agreements:

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

Reverse repos are accounted for as short-term collateralised lending, classified as loans and receivables and measured at amortised cost.

The difference between the sale and repurchase consideration is recognised on the accrual basis over the period of the transaction and is included in interest income.

(f) Revenue recognition:

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

Revenue comprises the following:

(i) Gross written premiums

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 32(g)(i).

32. Significant accounting policies (cont'd)

(f) Revenue recognition (cont'd):

(ii) Commission income

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts. Profit commission in respect of reinsurance contracts is recognised on the accrual basis.

(iii) Investment income

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

(g) Insurance contract recognition and measurement:

(i) Insurance contracts

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

Gross written premiums

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

Unearned premiums

Unearned premiums represent that proportion of the premiums written up to the accounting date which is attributable to subsequent periods and is calculated on the "twenty-fourths" basis on the total premiums written.

Unexpired risks

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

32. Significant accounting policies (cont'd)

(g) Insurance contract recognition and measurement (cont'd):

(i) Insurance contracts (cont'd)

Outstanding claims

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

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

Deferred acquisition cost and deferred commission income

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

(ii) Reinsurance assets

In the normal course of business the company seeks to reduce the loss that may result from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers (see notes 25, 26 and 27). Reinsurance ceded does not discharge the company's liability as the principal insurer. Failure of re-insurers to honour their obligations could result in losses to the company. Consequently, a contingent liability exists in the event that an assuming re-insurer is unable to meet its obligations.

Amounts recoverable from re-insurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned reinsurance premiums on business ceded up to the reporting date which are attributable to subsequent periods are calculated substantially on the "twenty-fourths" basis on the total premiums ceded.

Reinsurance assets are assessed for impairment at each reporting date.

32. Significant accounting policies (cont'd)

(g) Insurance contract recognition and measurement (cont'd):

(ii) Reinsurance assets (cont'd)

A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the company will receive from the re-insurer. Impairment losses on reinsurance assets are recognised in profit or loss.

(iii) Insurance receivable and insurance payable

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

(iv) Temporary exemption to defer the implementation of IFRS 9, *Financial Instruments*

The company has applied the temporary exemption to defer the implementation of IFRS 9, *Financial Instruments,* as its activities met the requirements to demonstrate that their predominant activity is issuing insurance contracts within the scope of IFRS 17 – *Insurance contracts*.

The company evaluated its liabilities at December 31, 2015, the prescribed date of assessment under the temporary exemption provisions and concluded that all of the liabilities were predominantly connected with insurance. Eighty-five percent (85%) of the company's liabilities at December 31, 2015 were liabilities that arose from contracts within the scope of IFRS 17 and nine percent (9%) of the company's liabilities at December 31, 2015 were liabilities that arose because the company issues insurance contracts and fulfil obligations arising from insurance contracts. Additionally, the company has not previously applied any version of IFRS 9. Therefore, the company is an eligible insurer that qualifies for optional relief from the application of IFRS 9.

As at December 31, 2020, there has been no change in the company's activities.

(h) Taxation:

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

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

32. Significant accounting policies (cont'd)

(h) Taxation (cont'd):

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

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

(i) Accounts receivable:

Trade and other receivables are measured at amortised cost, less impairment losses [note 32(n)].

(j) Cash and cash equivalents:

Cash and cash equivalents are measured at amortised cost. They comprise cash balances, cash in hand and short-term, highly liquid investments where original maturities do not exceed three months from the reporting date, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments. Bank overdrafts are repayable on demand. Bank overdrafts that form an integral part of the company's cash management for financing operations are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Accounts payable and provision:

Accounts payable are measured at amortised cost.

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

(l) Employee benefits:

Employee benefits are all forms of consideration given by the company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, national insurance scheme contributions, vacation leave; non-monetary benefits such as medical care; post-employment benefits such as pensions and other long-term employee benefits such as termination benefits.

32. Significant accounting policies (cont'd)

(l) Employee benefits (cont'd):

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as an expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below. Other long-term benefits are not considered material and are charged to income when incurred.

The ultimate parent company provides post-retirement pension benefits to employees who have satisfied certain minimum service requirements (note 33). These benefits are accounted for under a defined contribution pension plan and the obligations for contributions are recognised as an expense in the profit or loss as incurred.

(m) Impairment:

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

(i) Calculation of recoverable amount

The recoverable amount of the company's investments is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

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

(ii) Reversals of impairment

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

32. Significant accounting policies (cont'd)

(n) Dividends:

Dividends are recognised as a liability in the period in which they are declared.

(o) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include investments, reinsurance assets, securities purchased under resale agreements, insurance receivables, due from related entities, other accounts receivable, accrued investment income and cash and cash equivalents. Financial liabilities include bank overdraft, accounts payable, insurance payables, and amounts due to related entities.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(p) Determination of fair value:

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the company has access at that date. The fair value of a liability reflects its non-performance risk. Some financial instruments lack an available trading market. These instruments have been valued using present value or other generally accepted valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

The company's policy on the determination of fair value is disclosed in note 28.

(q) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling on the date of those transactions. Realised and unrealised gains and losses arising from fluctuations in exchange rates are included in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments.

Monetary foreign currency balances at the reporting date are translated at the Bank of Jamaica's weighted average rates [see note 29(d)(iii)], being the rates of exchange ruling on that date.

32. Significant accounting policies (cont'd)

(r) Leases

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the company has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the company by the end of the lease term or the cost of the right-of-use asset reflects that the company will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as that of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Generally, the company uses its incremental borrowing rate as the discount rate.

The company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

32. Significant accounting policies (cont'd)

(r) Leases (cont'd)

As a lessee (cont'd)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the company is reasonably certain to exercise, lease payments in an optional renewal period, if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company presents right-of-use assets in property plant and equipment and lease liabilities in the statement of financial position.

As a lessor

At inception or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of their relative stand- alone prices.

When the company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the company applies the applicable standard to allocate the consideration in the contract.

The company recognises lease payments received under operating leases as income on a straight- line basis over the lease term as part of 'investment income'.

32. Significant accounting policies (cont'd)

(s) New, revised and amended standards and interpretations not yet effective:

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

- Amendments to IFRS 16 *Leases* is effective for annual periods beginning on or after June 1, 2020, with early application permitted. It provides guidance for COVID-19 related rent concessions.

  The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession. For example, if the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognised in profit or loss.

  The practical expedient will only apply if:

  - the revised consideration is substantially the same or less than the original consideration;
  - the reduction in lease payments relates to payments due on or before 30 June 2021; and
  - no other substantive changes have been made to the terms of the lease.

  Lessees applying the practical expedient are required to disclose:

  - that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
  - the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

  No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

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

32. Significant accounting policies (cont'd)

(s) New, revised and amended standards and interpretations not yet effective (cont'd):

- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* IFRS 4 *Insurance contracts and* IFRS 16 *Leases,* are effective for annual accounting periods beginning on or after January 1, 2020 and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform. The second phase amendments apply to all hedging relationships directly affected by IBOR reform. The amendments principally address practical expedient for modifications.

  A practical expedient has been introduced where changes will be accounted for by updating the effective interest rate if the change results directly from IBOR reform and occurs on an 'economically equivalent' basis. A similar practical expedient will apply under IFRS 16 *Leases* for lessees when accounting for lease modifications required by IBOR reform. In these instances, a revised discount rate that reflects the change in interest rate will be used in remeasuring the lease liability.

  The amendments also address specific relief from discontinuing hedging relationships as well as new disclosure requirements.

  The company has exercised the option to defer the effective date of the adoption of IFRS 9 to January 1, 2023, and is assessing the impact that this amendment may have on its 2023 financial statements.

- IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023 replaces IFRS 4 *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

  The key principles in IFRS 17 are that an entity:

  - Identifies insurance contract as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
  - Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
  - Recognises and measures groups of insurance contracts at:

    a) a risk - adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset);

    b) an amount representing the unearned profit in the group of contracts (the contractual service margin)

32. Significant accounting policies (cont'd)

(s) New, revised and amended standards and interpretations not yet effective (cont'd):

- IFRS 17 *Insurance Contracts (cont'd)*

  The key principles in IFRS 17 are that an entity (cont'd):

  - Recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognizes the loss immediately.
  - Presents separately insurance revenue (that excludes the receipt of repayment of any investment components) and insurance finance income or expenses;
  - Includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

  Many of the disclosures of IFRS 4 are kept in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

  The Company is assessing the impact that the amendments may have on its 2023 financial statements.

- Amendments to IFRS 17 *Insurance Contracts,* effective for annual reporting periods beginning on or after January 1, 2023 and provides for the following amendments to the standard:

  - Most companies that issue credit cards and similar products that provide insurance coverage will be able to continue with their existing accounting, unless the insurance coverage is a contractual feature, easing implementation for non-insurers.
  - For loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, companies that issue such loans have an option to apply IFRS 9 or IFRS 17, reducing the impact of IFRS 17 for non-insurers.

32. Significant accounting policies (cont'd)

(s) New, revised and amended standards and interpretations not yet effective (cont'd):

- Amendments to IFRS 17 Insurance Contracts (cont'd)

  - In measuring the contractual service margin; companies will choose to apply either a 'period-to-period' or 'year-to-date' approach, allowing greater opportunity for consistency with current practice and for subsidiaries to align reporting with their parent. Revenue and profit emergence will better reflect performance of the wide range of insurance products and the services they provide to customers' allocating insurance acquisition cash flows to future renewal groups. This reduces the risk of groups becoming onerous solely from acquisition expenses paid relating to future renewals. The allocation is revised at each reporting period to reflect any changes in assumptions that determine the inputs to the method of allocation used, until all contracts have been added to the group. Companies now need to assess the recoverability of insurance acquisition cash flow assets usually on a more granular level than applied today.

  - Upon transition, companies may be able to account for acquired contracts before the transition date as liabilities for incurred claims. In many cases, companies will be required to identify and recognise an asset for insurance acquisition cash flows incurred prior to transition. Companies are not required to perform a recoverability assessment for periods prior to transition.

  - In accounting for direct participating contracts risk mitigation option expanded to non-derivative assets at FVTPL and reinsurance contracts held and extended to provide relief prospectively from the transition date. If a company meets the risk mitigation option criteria before transition, it can now apply the fair value approach to the related contracts at transition. Companies applying both OCI and risk mitigation options together will be able to achieve better matching in the income statement.

  - For reinsurance contracts, companies will be able to offset losses on initial recognition of direct insurance contracts based on a prescribed formula if they are covered by reinsurance contracts held, reducing accounting mismatches.

  - There is relief for companies to present (re)insurance contract assets and liabilities at a portfolio level, instead of group level in the statement of financial position and income taxes specifically charged to policyholders may now be included in fulfilment cash flows, better reflecting local practice in certain jurisdictions.

The Company is assessing the impact that the amendments may have on its 2023 financial statements.

32. Significant accounting policies (cont'd)

(s) New, revised and amended standards and interpretations not yet effective (cont'd):

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

  A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

  With the amendments, convertible instruments may become current. In light of this, the amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that a company can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

  The Company is assessing the impact that the amendments may have on its 2023 financial statements.

33. Pension Scheme

The ultimate parent company provides post-retirement pension benefits to employees who have satisfied certain minimum service requirements [note 32(l)].

Employees contribute at a mandatory rate of 5%, but may make additional contributions not exceeding a further 10%. The company makes matching contributions at the rate of 5% to 10% of pensionable salaries, depending on the employees' years of pensionable service. Contributions to the plan for the year amounted to $24,085,000 (2019: $20,843,000).

34. Impact of the COVID-19

The World Health Organization (WHO) declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices.

34. Impact of the COVID-19 (cont'd)

In light of the heightened concerns and in accordance with the directives of the Government, the company and ultimate parent activated its Business Continuity and Contingency Plan ("BCCP") to minimise the potential exposure to staff and clients, whilst ensuring that any disruption to the business is kept at a minimum. With the launch of the BCCP as at March 17, 2020, specific work from home protocols were established and implemented to minimise the number of employees physically in office. In-Office staff are equipped with hand sanitisers, masks and face shields (where necessary), and are required to comply with the social/physical distancing rules mandated by the Government.

Management continues to review the effect of developments arising from the pandemic on the risks faced by the company. Management believes the company, with the support of the ultimate parent, is in a sufficiently strong position to cope with the possible significant economic downturn. While management is aware that a long duration of the pandemic and the attendant containment measures could have a material adverse effect on the company, and its customers, employees and suppliers, it is hopeful that the initiatives implemented to mitigate its impact will be successful.