JN GENERAL INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2016

KPMG
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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") comprising the separate financial statements of the company and the consolidated financial statements of the company and its subsidiary ("the group"), set out on pages 5 to 68, which comprise the company's and group's statement of financial position as at December 31, 2016, the company's and group's 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 and group as at December 31, 2016, and of the company's and group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

*Basis for Opinion*

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

To the Members of
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 International Financial Reporting Standards 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.

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)*

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

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

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

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

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

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

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)*

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

March 23, 2017

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2016

| | Notes | Company 2016 $'000 | Company 2015 $'000 | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Intangible asset | 6 | 80,531 | 71,546 | 80,531 | 71,546 |
| Property, plant and equipment | 7 | 336,443 | 340,928 | 352,770 | 351,697 |
| Investment properties | 8 | 148,771 | 118,241 | 148,771 | 118,241 |
| Deferred taxation | 16 | 50,899 | 29,769 | 50,899 | 29,769 |
| Investments | 9 | 5,350,545 | 4,870,133 | 5,350,545 | 4,870,133 |
| Reinsurance assets | 10 | 1,390,847 | 1,266,117 | 1,390,847 | 1,266,117 |
| Short-term investments | 11 | 1,786,646 | 1,761,198 | 1,788,346 | 1,762,878 |
| Insurance receivables and deferred expenses | 12 | 677,910 | 634,901 | 677,910 | 634,901 |
| Inventories | 34(i) | - | - | 2,084 | 1,504 |
| Taxation recoverable | | 3,086 | 51,931 | 5,361 | 54,541 |
| Other accounts receivable | | 79,236 | 56,628 | 107,516 | 65,298 |
| Accrued investment income | | 103,737 | 102,262 | 103,737 | 102,262 |
| Cash and cash equivalents | | 240,829 | 239,349 | 244,621 | 257,486 |
| | | 10,249,480 | 9,543,003 | 10,303,938 | 9,586,373 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued charges | 13 | 142,866 | 142,427 | 170,749 | 160,650 |
| Insurance payables and deferred income | 14 | 507,357 | 471,200 | 507,357 | 471,200 |
| Insurance contract provisions | 10 | 4,507,097 | 4,266,505 | 4,507,097 | 4,266,505 |
| Due to The Jamaica National Building Society | | 57 | 8,910 | 16,098 | 16,431 |
| Due to subsidiary | | 11,272 | 10,669 | - | - |
| Retirement benefits obligation | 15 | 172,560 | 139,116 | 172,560 | 139,116 |
| Deferred taxation | 16 | - | - | 254 | 32 |
| | | 5,341,209 | 5,038,827 | 5,374,115 | 5,053,934 |
| Shareholders' equity: | | | | | |
| Share capital | 17 | 72,900 | 72,900 | 72,900 | 72,900 |
| Capital reserve | 18 | 11,197 | 11,197 | 11,197 | 11,197 |
| Investment revaluation reserve | 19 | 150,921 | 171,952 | 150,921 | 171,952 |
| Retained earnings | | 4,673,253 | 4,248,127 | 4,694,805 | 4,276,390 |
| | | 4,908,271 | 4,504,176 | 4,929,823 | 4,532,439 |
| | | 10,249,480 | 9,543,003 | 10,303,938 | 9,586,373 |

The financial statements on pages 5 to 68 were approved for issue by the Board of Directors on March 23, 2017 and signed on its behalf by:

K Moss _______________ Chairman
Kathleen A. J. Moss

_______________ 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, 2016

| | Notes | Company 2016 $'000 | Company 2015 $'000 | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|---|---|---|
| Gross premiums written | 10(c) | 5,221,092 | 4,898,289 | 5,221,092 | 4,898,289 |
| Change in gross provision for unearned premiums | | ( 19,278) | ( 536,198) | ( 19,278) | ( 536,198) |
| Gross insurance premium revenue | 10(c) | 5,201,814 | 4,362,091 | 5,201,814 | 4,362,091 |
| Written premiums ceded to reinsurers | 10(c) | (3,075,436) | (2,883,482) | (3,075,436) | (2,883,482) |
| Reinsurers' share of change in provision for unearned premiums | | ( 4,515) | 401,016 | ( 4,515) | 401,016 |
| Net insurance premium revenue | | 2,121,863 | 1,879,625 | 2,121,863 | 1,879,625 |
| Claims expenses incurred | 10(b) | (1,543,553) | ( 931,521) | (1,543,553) | ( 931,521) |
| Reinsurers' share of claims and benefits incurred | 10(b) | 352,353 | 94,930 | 352,353 | 94,930 |
| Net insurance claims | | (1,191,200) | ( 836,591) | (1,191,200) | ( 836,591) |
| Commission income | 14 | 516,170 | 518,251 | 516,170 | 518,251 |
| Commission expense | 12 | ( 310,380) | ( 280,170) | ( 310,380) | ( 280,170) |
| Net commission income | | 205,790 | 238,081 | 205,790 | 238,081 |
| | | 1,136,453 | 1,281,115 | 1,136,453 | 1,281,115 |
| Operating expenses | 20 | (1,180,279) | (1,020,920) | (1,180,279) | (1,020,920) |
| Underwriting (loss)/profit before other income and taxation | | ( 43,826) | 260,195 | ( 43,826) | 260,195 |
| Fees, net | | - | - | ( 7,370) | 3,199 |
| Investment income, net | 21 | 652,406 | 503,750 | 652,463 | 503,846 |
| Gain on disposal of property, plant and equipment | | 1,620 | 308 | 1,620 | 308 |
| Other income | | 9,018 | 7,188 | 9,576 | 12,074 |
| Foreign exchange gains | | 82,405 | 59,455 | 82,405 | 59,455 |
| Contributions to JNBS Foundation | | ( 20,829) | ( 19,307) | ( 20,829) | ( 19,307) |
| Profit before taxation | | 680,794 | 811,589 | 674,039 | 819,770 |
| Taxation | 22 | ( 143,877) | ( 216,480) | ( 143,833) | ( 217,911) |
| Profit for the year | | 536,917 | 595,109 | 530,206 | 601,859 |
| Other comprehensive income/(loss): | | | | | |
| Items that will never be reclassified to profit or loss: | | | | | |
| Re-measurement loss on retirement benefits obligation | 15(d) | ( 20,680) | ( 9,729) | ( 20,680) | ( 9,729) |
| Tax on re-measurement | 16 | 6,893 | 3,243 | 6,893 | 3,243 |
| | | ( 13,787) | ( 6,486) | ( 13,787) | ( 6,486) |
| Items that are or may be reclassified to profit or loss: | | | | | |
| Change in fair value of investments | | 153,573 | 132,678 | 153,573 | 132,678 |
| Released on disposal of investments | | ( 174,604) | ( 42,653) | ( 174,604) | ( 42,653) |
| | 22(c) | ( 21,031) | 90,025 | ( 21,031) | 90,025 |
| Total other comprehensive (loss)/income for the year | | ( 34,818) | 83,539 | ( 34,818) | 83,539 |
| Total comprehensive income for the year | | 502,099 | 678,648 | 495,388 | 685,398 |

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

JN GENERAL INSURANCE COMPANY LIMITED

Company Statement of Changes in Shareholders' Equity
Year ended December 31, 2016

| | Share capital (note 17) $'000 | Capital reserve (note 18) $'000 | Investment revaluation reserve (note 19) $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balances at December 31, 2014 | 72,900 | 11,197 | 81,927 | 3,777,985 | 3,944,009 |
| Comprehensive income: | | | | | |
| Profit for the year | - | - | - | 595,109 | 595,109 |
| Other comprehensive income: | | | | | |
| Re-measurement loss on retirement benefit obligation [note 15(d)] | - | - | - | ( 9,729) | ( 9,729) |
| Tax on re-measurement (note 16) | - | - | - | 3,243 | 3,243 |
| Change in fair value of investments | - | - | 132,678 | - | 132,678 |
| Released on disposal of investments | - | - | ( 42,653) | - | ( 42,653) |
| Total comprehensive income for the year | - | - | 90,025 | 588,623 | 678,648 |
| Dividends: | | | | | |
| Preference (20%) | - | - | - | ( 4,860) | ( 4,860) |
| Ordinary ($2.33788 per share) | - | - | - | ( 113,621) | ( 113,621) |
| Total dividends | - | - | - | ( 118,481) | ( 118,481) |
| Balances at December 31, 2015 | 72,900 | 11,197 | 171,952 | 4,248,127 | 4,504,176 |
| Comprehensive income: | | | | | |
| Profit for the year | - | - | - | 536,917 | 536,917 |
| Other comprehensive income: | | | | | |
| Re-measurement loss on retirement benefit obligation [note 15(d)] | - | - | - | ( 20,680) | ( 20,680) |
| Tax on re-measurement (note 16) | - | - | - | 6,893 | 6,893 |
| Change in fair value of investments | - | - | 153,573 | - | 153,573 |
| Released on disposal of investments | - | - | (174,604) | - | ( 174,604) |
| Total comprehensive income for the year | - | - | ( 21,031) | 523,130 | 502,099 |
| Dividends: | | | | | |
| Preference (20%) | - | - | - | ( 4,860) | ( 4,860) |
| Ordinary ($1.916543 per share) | - | - | - | ( 93,144) | ( 93,144) |
| Total dividends | - | - | - | ( 98,004) | ( 98,004) |
| Balances at December 31, 2016 | 72,900 | 11,197 | 150,921 | 4,673,253 | 4,908,271 |

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

JN GENERAL INSURANCE COMPANY LIMITED

Group Statement of Changes in Shareholders' Equity
Year ended December 31, 2016

| | Share capital (note 17) $'000 | Capital reserve (note 18) $'000 | Investment revaluation reserve (note 19) $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balances at December 31, 2014 | 72,900 | 11,197 | 81,927 | 3,799,498 | 3,965,522 |
| Comprehensive income: | | | | | |
| Profit for the year | - | - | - | 601,859 | 601,859 |
| Other comprehensive income: | | | | | |
| Re-measurement loss on retirement benefits obligation [note 15(d)] | - | - | - | ( 9,729) | ( 9,729) |
| Tax on re-measurement (note 16) | - | - | - | 3,243 | 3,243 |
| Change in fair value of investments | - | - | 132,678 | - | 132,678 |
| Released on disposal of investments | - | - | ( 42,653) | - | ( 42,653) |
| Total comprehensive income for the year | - | - | 90,025 | 595,373 | 685,398 |
| Dividends: | | | | | |
| Preference (20%) | - | - | - | ( 4,860) | ( 4,860) |
| Ordinary ($2.33788 per share) | - | - | - | ( 113,621) | ( 113,621) |
| Total dividends | - | - | - | ( 118,481) | ( 118,481) |
| Balances at December 31, 2015 | 72,900 | 11,197 | 171,952 | 4,276,390 | 4,532,439 |
| Comprehensive income: | | | | | |
| Profit for the year | - | - | - | 530,206 | 530,206 |
| Other comprehensive income: | | | | | |
| Re-measurement loss on retirement benefits obligation [note 15(d)] | - | - | - | ( 20,680) | ( 20,680) |
| Tax on re-measurement (note 16) | - | - | - | 6,893 | 6,893 |
| Change in fair value of investments | - | - | 153,573 | - | 153,573 |
| Released on disposal of investments | - | - | (174,604) | - | ( 174,604) |
| Total comprehensive income for the year | - | - | ( 21,031) | 516,419 | 495,388 |
| Dividends: | | | | | |
| Preference (20%) | - | - | - | ( 4,860) | ( 4,860) |
| Ordinary ($1.916543 per share) | - | - | - | ( 93,144) | ( 93,144) |
| Total dividends | - | - | - | ( 98,004) | ( 98,004) |
| Balances at December 31, 2016 | 72,900 | 11,197 | 150,921 | 4,694,805 | 4,929,823 |

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

JN GENERAL INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2016

| | Notes | Company 2016 $'000 | Company 2015 $'000 | Group 2016 $'000 | Group 2015 $'000 |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit for the year | | 536,917 | 595,109 | 530,206 | 601,859 |
| Adjustments for: | | | | | |
| Amortisation of intangible asset | 6 | 20,975 | 6,658 | 20,975 | 6,658 |
| Depreciation on property, plant and equipment | 7 | 55,144 | 44,693 | 58,178 | 46,234 |
| Depreciation on investment properties | 8 | 3,657 | 3,552 | 3,657 | 3,552 |
| Gain on disposal of intangible asset and property, plant and equipment | | ( 1,620) | ( 308) | ( 1,620) | ( 308) |
| Gain on disposal of investments | 21 | (174,874) | ( 41,399) | (174,874) | ( 41,399) |
| Gain on disposal of investment property | 21 | - | ( 19,302) | - | ( 19,302) |
| Insurance contract provisions, net | | 115,862 | 88,901 | 115,862 | 88,901 |
| Post-retirement benefit | | 12,764 | 13,807 | 12,764 | 13,807 |
| Unrealised foreign exchange gains | | ( 82,405) | ( 59,455) | ( 82,405) | ( 59,455) |
| Interest income | 21 | (459,388) | (425,667) | (459,445) | (425,763) |
| Current tax expense | 22 | 158,114 | 224,836 | 157,848 | 226,267 |
| Deferred taxation | 16 | ( 14,237) | ( 8,356) | ( 14,015) | ( 8,356) |
| | | 170,909 | 423,069 | 167,131 | 432,695 |
| Changes in: | | | | | |
| Insurance receivables and deferred expenses | | ( 43,009) | ( 73,794) | ( 43,009) | ( 73,794) |
| Inventories | | - | - | ( 580) | ( 319) |
| Other accounts receivable | | ( 22,608) | ( 28,970) | ( 42,218) | ( 23,065) |
| Accounts payable and accrued charges | | 439 | 22,664 | 10,099 | 24,048 |
| Insurance payables and deferred income | | 36,157 | 28,194 | 36,157 | 28,194 |
| Due to The Jamaica National Building Society | | ( 8,853) | 4,511 | ( 333) | 14,821 |
| Due to subsidiary | | 603 | 4,831 | - | - |
| | | 133,638 | 380,505 | 127,247 | 402,580 |
| Interest received | | 457,913 | 424,121 | 457,970 | 424,217 |
| Taxes paid | | (109,269) | (106,704) | (108,668) | (107,387) |
| Net cash provided by operating activities | | 482,282 | 697,922 | 476,549 | 719,410 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Additions to intangible asset | 6 | ( 59,439) | ( 71,937) | ( 59,439) | ( 71,937) |
| Additions to property, plant and equipment | 7 | ( 27,088) | ( 13,627) | ( 35,680) | ( 21,631) |
| Additions to investment properties | 8 | ( 34,187) | ( 1,131) | ( 34,187) | ( 1,131) |
| Additions to investments, net | | (288,449) | (451,456) | (288,469) | (450,031) |
| Proceeds on disposal of investment property | | - | 21,689 | - | 21,689 |
| Proceeds on disposal of intangible asset and property, plant and equipment | | 7,528 | 635 | 7,528 | 635 |
| Net cash used by investing activities | | (401,635) | (515,827) | (410,247) | (522,406) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Ordinary dividends paid | | ( 93,144) | (113,621) | ( 93,144) | (113,621) |
| Preference dividends paid | | ( 4,860) | ( 4,860) | ( 4,860) | ( 4,860) |
| Net cash used by financing activities | | ( 98,004) | (118,481) | ( 98,004) | (118,481) |
| Net (decrease)/increase in cash and cash equivalents | | ( 17,357) | 63,614 | ( 31,702) | 78,523 |
| Effect of exchange rate changes on cash and cash equivalents | | 18,837 | 16,037 | 18,837 | 16,037 |
| Cash and cash equivalents at beginning of year | | 239,349 | 159,698 | 257,486 | 162,926 |
| Cash and cash equivalents at end of year | | 240,829 | 239,349 | 244,621 | 257,486 |

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

1. The company

The company is incorporated and domiciled in Jamaica. The registered office is located at 9 King Street, Kingston and up to February 1, 2017, it was a 99.5% (2015: 99.5%) subsidiary of The Jamaica National Building Society ("the Society"), also incorporated in Jamaica. The Scheme of Arrangement ("the Scheme") by which the JN Group has been reorganized under three distinct holding companies was sanctioned by Order of the Supreme Court on December 22, 2016. Among other things, the Scheme resulted in the conversion of the Society to a commercial bank licenced under the Banking Services Act, 2014 on February 1, 2017. Upon the Scheme taking effect on February 1, 2017, ownership of the company passed to the JN Financial Group Limited and the Jamaica National Group Limited became the ultimate holding company.

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

Up to February 1, 2017 the company had a 100% interest in The Jamaica Automobile Association (Services) Limited (JAA). Under the Scheme ownership of JAA passed to MCS Group Limited with Jamaica National Group Limited being the ultimate holding company. The principal activity of JAA is the provision of services connected with the operation, ownership, driving of motor vehicles and limousine services. JAA provides the company with claims assistance services.

The company and its subsidiary are collectively referred to as the "group".

2. Insurance licence

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

3. Roles of the actuary and 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, in his verification of the management information provided by the company, and used in valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors 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 their interpretations as issued by the International Accounting Standards Board (IASB) and comply with the provisions of the Jamaican Companies Act.

Details of the group's accounting policies, including changes during the year, are included in notes 33 and 34.

(b) Basis of preparation:

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 group, 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. 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.

(e) Comparative information:

Wherever necessary, the comparative figures are reclassified to conform to current year's presentation.

5. Accounting estimates and judgements

Note 25 contains information about the assumptions and uncertainties relating to insurance liability and discloses the risk factors in these contracts. Note 28 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:

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 group's obligation. In the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest tenure 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.

5. Accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty (cont'd):

(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.

(iv) Valuation of financial instruments:

The group's accounting policy on fair value measurements is discussed in accounting policy [notes 34 (e) and 34 (s)].

The group measures fair values using the fair value hierarchy [note 27(ii)] that reflects the significance of the inputs used in making the measurements:

(a) Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.

(b) Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

(c) Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 group determines fair values using valuation techniques.

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2016

5. Accounting estimates and judgements (cont'd)

Key sources of estimation uncertainty (cont'd):

(iv) Valuation of financial instruments (cont'd):

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 premia used in estimating discount rates.

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

6. Intangible asset

**Company and Group**

| | Computer software $'000 |
|---|---|
| At cost: | |
| December 31, 2014 | 164,054 |
| Additions | 71,937 |
| December 31, 2015 | 235,991 |
| Additions | 59,439 |
| Reclassification | ( 24,289) |
| Disposal | ( 17,661) |
| December 31, 2016 | 253,480 |
| Amortisation: | |
| December 31, 2014 | 157,787 |
| Charge for the year | 6,658 |
| December 31, 2015 | 164,445 |
| Charge for the year | 20,975 |
| Reclassification | ( 668) |
| Disposal | ( 11,803) |
| December 31, 2016 | 172,949 |
| Carrying amount: | |
| December 31, 2016 | 80,531 |
| December 31, 2015 | 71,546 |
| December 31, 2014 | 6,267 |

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2016

7. Property, plant and equipment

**Company**

| | Land and buildings $'000 | Furniture, fixtures and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| At cost: | | | | |
| December 31, 2014 | 320,905 | 322,510 | 56,842 | 700,257 |
| Additions | 2,019 | 11,608 | - | 13,627 |
| Disposals | ( 1,967) | ( 737) | ( 1,994) | ( 4,698) |
| December 31, 2015 | 320,957 | 333,381 | 54,848 | 709,186 |
| Additions | 1,428 | 25,132 | 528 | 27,088 |
| Reclassification | - | 24,289 | - | 24,289 |
| Disposals | - | ( 8,831) | ( 4,385) | ( 13,216) |
| December 31, 2016 | 322,385 | 373,971 | 50,991 | 747,347 |
| Depreciation: | | | | |
| December 31, 2014 | 67,388 | 238,221 | 22,327 | 327,936 |
| Charge for the year | 8,546 | 26,082 | 10,065 | 44,693 |
| Eliminated on disposals | ( 1,640) | ( 737) | ( 1,994) | ( 4,371) |
| December 31, 2015 | 74,294 | 263,566 | 30,398 | 368,258 |
| Charge for the year | 7,483 | 37,883 | 9,778 | 55,144 |
| Reclassification | - | 668 | - | 668 |
| Eliminated on disposals | - | ( 8,781) | ( 4,385) | ( 13,166) |
| December 31, 2016 | 81,777 | 293,336 | 35,791 | 410,904 |
| Carrying amount: | | | | |
| December 31, 2016 | 240,608 | 80,635 | 15,200 | 336,443 |
| December 31, 2015 | 246,663 | 69,815 | 24,450 | 340,928 |
| December 31, 2014 | 253,517 | 84,289 | 34,515 | 372,321 |

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2016

7. Property, plant and equipment (cont'd)

**Group**

| | Land and buildings $'000 | Furniture, fixtures and office equipment $'000 | Motor vehicles $'000 | Total $'000 |
|---|---|---|---|---|
| At cost: | | | | |
| December 31, 2014 | 320,905 | 332,141 | 62,344 | 715,390 |
| Additions | 2,019 | 12,983 | 6,629 | 21,631 |
| Disposals | ( 1,967) | ( 737) | ( 1,994) | ( 4,698) |
| December 31, 2015 | 320,957 | 344,387 | 66,979 | 732,323 |
| Additions | 1,428 | 32,708 | 1,544 | 35,680 |
| Reclassification | - | 24,289 | - | 24,289 |
| Disposals | - | ( 8,831) | ( 8,490) | ( 17,321) |
| December 31, 2016 | 322,385 | 392,553 | 60,033 | 774,971 |
| Depreciation: | | | | |
| December 31, 2014 | 67,388 | 243,928 | 27,447 | 338,763 |
| Charge for the year | 8,546 | 27,183 | 10,505 | 46,234 |
| Eliminated on disposals | ( 1,640) | ( 737) | ( 1,994) | ( 4,371) |
| December 31, 2015 | 74,294 | 270,374 | 35,958 | 380,626 |
| Charge for the year | 7,483 | 39,668 | 11,027 | 58,178 |
| Reclassification | - | 668 | - | 668 |
| Eliminated on disposals | - | ( 8,781) | ( 8,490) | ( 17,271) |
| December 31, 2016 | 81,777 | 301,929 | 38,495 | 422,201 |
| Carrying amount: | | | | |
| December 31, 2016 | 240,608 | 90,624 | 21,538 | 352,770 |
| December 31, 2015 | 246,663 | 74,013 | 31,021 | 351,697 |
| December 31, 2014 | 253,517 | 88,213 | 34,897 | 376,627 |

Included in land and buildings is the cost of land at $18,466,000 (2015: $18,466,000) for the company and the group.

8. Investment properties

**Company and Group**

| | Total $'000 |
|---|---|
| At cost: | |
| December 31, 2014 | 141,839 |
| Additions | 1,131 |
| Disposal | ( 5,135) |
| December 31, 2015 | 137,835 |
| Additions | 34,187 |
| December 31, 2016 | 172,022 |
| Depreciation: | |
| December 31, 2014 | 18,790 |
| Charge for the year | 3,552 |
| Eliminated on disposal | ( 2,748) |
| December 31, 2015 | 19,594 |
| Charge for the year | 3,657 |
| December 31, 2016 | 23,251 |
| Carrying amount: | |
| December 31, 2016 | 148,771 |
| December 31, 2015 | 118,241 |
| December 31, 2014 | 123,049 |

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Fair value of investment properties (see note below) | 188,375 | 188,375 |
| Income earned from the properties | 13,139 | 12,286 |
| Expenses incurred by the properties | 4,855 | 6,297 |

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 in February 2015 by The C.D. Alexander Company Realty Limited on the open market basis.

Measurement of fair value:

The group's accounting policy on investment properties is disclosed in note 34(d). The following table shows the valuation technique used in measuring the fair value as well as the significant unobservable inputs used.

8. Investment properties (cont'd)

**Company and Group (cont'd)**

Measurement of fair value (cont'd):

| Valuation technique | Significant unobservable inputs | Inter relationship between key inputs and fair 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.<br><br>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. | • Expected market rental growth yields<br><br>• Rental rates | The estimated fair value would increase/(decrease) if:<br>(a) Expected market rental growth were higher/(lower);<br><br>(b) The occupancy rates were higher/(lower);<br><br>(c) Rent-free periods were shorter/(longer); or<br><br>(d) Yields were lower/(higher) |

9. Investments

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Company and Group** | | |
| Available-for-sale securities: | | |
| Quoted equities | 408,097 | 344,145 |
| Unit trust | 22,286 | - |
| Government of Jamaica Securities: | | |
| J$ local bonds | 3,700,812 | 3,594,662 |
| US$ denominated local bonds | 399,192 | 375,196 |
| US$ global bonds | - | 128,412 |
| Government of Barbados bond | 57,359 | - |
| Other bonds, secured | 303,311 | 209,352 |
| Other bonds, unsecured | 289,512 | 58,841 |
| Certificates of deposit | 169,976 | 159,525 |
| | 5,350,545 | 4,870,133 |

9. Investments (cont'd)

**Company and Group (cont'd)**

Investments totalling $45,000,000 (2015: $45,000,000) are held to the order of the Financial Services Commission as required by the Insurance Act 2001.

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

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| No specific maturity | 430,383 | 344,145 |
| 3 months to 1 year | 821,414 | - |
| 1 year to 5 years | 3,152,421 | 3,746,670 |
| Over 5 years | 946,327 | 779,318 |
| | 5,350,545 | 4,870,133 |

10. Reinsurance assets and insurance contract provisions

**Company and Group**

(a)

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross<br>$'000 | Reinsurance<br>$'000 | Net<br>$'000 | Gross<br>$'000 | Reinsurance<br>$'000 | Net<br>$'000 |
| Claims outstanding | 2,253,854 | 216,129 | 2,037,725 | 2,032,540 | 86,884 | 1,945,656 |
| Unearned premiums | 2,253,243 | 1,174,718 | 1,078,525 | 2,233,965 | 1,179,233 | 1,054,732 |
| | 4,507,097 | 1,390,847 | 3,116,250 | 4,266,505 | 1,266,117 | 3,000,388 |

(b) Analysis of movements in insurance contract provisions

Claims outstanding

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross<br>$'000 | Reinsurance<br>$'000 | Net<br>$'000 | Gross<br>$'000 | Reinsurance<br>$'000 | Net<br>$'000 |
| Claims notified | 1,360,017 | 78,372 | 1,281,645 | 1,443,052 | 112,540 | 1,330,512 |
| Claims incurred but not reported | 672,523 | 8,512 | 664,011 | 662,033 | 608 | 661,425 |
| Balance at January 1 | 2,032,540 | 86,884 | 1,945,656 | 2,105,085 | 113,148 | 1,991,937 |
| Claims incurred | 1,543,553 | 352,353 | 1,191,200 | 931,521 | 94,930 | 836,591 |
| Claims paid in year | (1,322,239) | (223,108) | (1,099,131) | (1,004,066) | (121,194) | ( 882,872) |
| Change in outstanding claims provision | 221,314 | 129,245 | 92,069 | ( 72,545) | ( 26,264) | ( 46,281) |
| Balance at December 31 | 2,253,854 | 216,129 | 2,037,725 | 2,032,540 | 86,884 | 1,945,656 |
| Claims notified | 1,534,353 | 193,389 | 1,340,964 | 1,360,017 | 78,372 | 1,281,645 |
| Claims incurred but not reported | 719,501 | 22,740 | 696,761 | 672,523 | 8,512 | 664,011 |
| Balance at December 31 | 2,253,854 | 216,129 | 2,037,725 | 2,032,540 | 86,884 | 1,945,656 |

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

**Company and Group (cont'd)**

(b) Analysis of movements in insurance contract provisions (cont'd)

Claims outstanding (cont'd)

Outstanding claims include gross claims payable of $14,876,640 (2015: $28,322,312) under policies issued to related parties.

(c) Unearned premiums:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Gross $'000 | Reinsurance $'000 | Net $'000 | Gross $'000 | Reinsurance $'000 | Net $'000 |
| Balance January 1 | 2,233,965 | 1,179,233 | 1,054,732 | 1,697,767 | 778,217 | 919,550 |
| Premiums written during the year | 5,221,092 | 3,075,436 | 2,145,656 | 4,898,289 | 2,883,482 | 2,014,807 |
| Premiums earned during the year | (5,201,814) | (3,079,951) | (2,121,863) | (4,362,091) | (2,482,466) | (1,879,625) |
| Balance December 31 | 2,253,243 | 1,174,718 | 1,078,525 | 2,233,965 | 1,179,233 | 1,054,732 |

(d) Gross unearned premiums are analysed as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Liability | 126,631 | 129,347 |
| Motor | 872,644 | 849,623 |
| Pecuniary loss | 4,506 | 4,809 |
| Personal Accident | 8,325 | 8,158 |
| Marine | 3,760 | 3,392 |
| Property | 1,184,382 | 1,191,274 |
| Engineering | 52,995 | 47,362 |
| | 2,253,243 | 2,233,965 |

11. Short-term investments

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| Available-for-sale securities: | | | | |
| Government of Jamaica Securities | | | | |
| Treasury bills | 132,302 | 167,721 | 132,302 | 167,721 |
| Fixed rate indexed note | 133,034 | 114,183 | 133,034 | 114,183 |
| Balance carried forward | 265,336 | 281,904 | 265,336 | 281,904 |

11. Short-term investments (cont'd)

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| Balance brought forward | 265,336 | 281,904 | 265,336 | 281,904 |
| Resale agreements and short-term deposits: | | | | |
| US$ denominated | 99,239 | 91,719 | 99,239 | 91,719 |
| J$ denominated | 1,422,071 | 1,387,575 | 1,423,771 | 1,389,255 |
| | 1,521,310 | 1,479,294 | 1,523,010 | 1,480,974 |
| | 1,786,646 | 1,761,198 | 1,788,346 | 1,762,878 |

The fair value of short term deposits and securities held as collateral for securities purchased under resale agreements as at December 31, 2016 was $1,521,431,000 (2015: $1,479,732,000), for the company and $1,523,131,000 (2015: $1,481,412,000) for the group.

12. Insurance receivables and deferred expenses

**Company and Group**

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Premiums receivable | 560,807 | 518,867 |
| Due from other insurance companies | 17,647 | 14,030 |
| | 578,454 | 532,897 |
| Less: Allowance for impairment | ( 24,473) | ( 18,036) |
| | 553,981 | 514,861 |
| Deferred commission expense | 123,929 | 120,040 |
| | 677,910 | 634,901 |

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

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Balance at January 1 | 18,036 | 15,649 |
| Amount expensed during year | 6,568 | 7,193 |
| Amount written-off during year | ( 131) | ( 4,806) |
| Balance at December 31 | 24,473 | 18,036 |

Information relating to credit risk management and maturity profile of insurance and other receivables are outlined in more detail in note 28(a).

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Notes to the Financial Statements (Continued)
December 31, 2016

12. Insurance receivables and deferred expenses (cont'd)

**Company and Group (cont'd)**

The analysis of the deferred commission expense is as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Balance at January 1 | 120,040 | 108,547 |
| Commission paid | 314,269 | 291,663 |
| Transfers to profit or loss | (310,380) | (280,170) |
| Balance at December 31 | 123,929 | 120,040 |

13. Accounts payable and accrued charges

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| Accruals | 97,949 | 98,716 | 125,832 | 116,939 |
| G.C.T. and withholding tax payable | 21,963 | 23,419 | 21,963 | 23,419 |
| Statutory deductions | 22,954 | 20,292 | 22,954 | 20,292 |
| | 142,866 | 142,427 | 170,749 | 160,650 |

14. Insurance payables and deferred income

**Company and Group**

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Due to reinsurers | 244,566 | 213,766 |
| Due to policyholders, brokers and agents | 84,550 | 76,596 |
| Deferred commission income | 178,241 | 180,838 |
| | 507,357 | 471,200 |

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Balance at January 1 | 180,838 | 153,644 |
| Commission received | 513,573 | 545,445 |
| Commission earned | (516,170) | (518,251) |
| Balance at December 31 | 178,241 | 180,838 |

15. Retirement benefits obligation

**Company and Group**

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Post retirement health benefits obligation | 165,247 | 129,607 |
| Supplementary pension benefit | 7,313 | 9,509 |
| | 172,560 | 139,116 |

Post-retirement health benefits obligation:

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Present value of funded obligations | 165,247 | 129,607 |

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Balance at January 1 | 129,607 | 106,254 |
| Contributions paid | ( 1,935) | ( 1,818) |
| Expense recognised in profit or loss | 16,895 | 15,442 |
| Re-measurement loss on obligation | 20,680 | 9,729 |
| Balance at December 31 | 165,247 | 129,607 |

(c) Expenses recognised in profit or loss:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Current service costs | 5,494 | 4,963 |
| Interest on obligation | 11,401 | 10,479 |
| | 16,895 | 15,442 |

15. Retirement benefits obligation (cont'd)

**Company and Group (cont'd)**

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

(d) Included in other comprehensive income:

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| Re-measurement loss on obligation arising from: | | |
| Changes in financial assumptions | 17,605 | 12,638 |
| Experience adjustments | 3,075 | ( 2,909) |
| | 20,680 | 9,729 |

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

| | 2016 | 2015 |
|---|---|---|
| | % | % |
| Discount rate | 9.0 | 8.5 |
| Future increases in medical premium | 8.0 | 7.0 |

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 summarizes 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 one percentage point. In preparing the analyses 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 1% reduction in the long-term discount rate, would cause some reduction in the medical trend rate.

| | One percentage point increase | One percentage point decrease |
|---|---|---|
| | $ | $ |
| | $'000 | $'000 |
| Discount rate | (32,133) | 43,553 |
| Future medical cost | 43,553 | (32,133) |

15. Retirement benefits obligation (cont'd)

**Company and Group (cont'd)**

Supplementary pension benefit:

The company provides supplementary pension for 5 pensioners (2015: 6); the defined benefit obligation in respect of these pensioners was $7,313,000 at December 31, 2016 (2015: $9,509,000).

16. Deferred taxation

**Company**

Deferred taxation assets/(liabilities) are attributable to the following:

| | Assets | |
|---|---|---|
| | 2016 | 2015 |
| Intangible asset | 11,588 | 1,223 |
| Property, plant and equipment | 15,544 | 16,197 |
| Accrued investment income | (34,579) | (34,087) |
| Other accounts payable | 1,770 | 1,239 |
| Investment properties | ( 782) | ( 480) |
| Gain on exchange | ( 162) | ( 695) |
| Retirement benefits | 57,520 | 46,372 |
| Net deferred tax assets | 50,899 | 29,769 |

Movement in temporary differences during the year are as follows:

| | 2016 $'000 | Recognised in income $'000 (note 22) | Recognised in other comprehensive income $'000 | 2015 $'000 | Recognised in income $'000 (note 22) | Recognised in other comprehensive income $'000 | 2014 $'000 |
|---|---|---|---|---|---|---|---|
| Intangible asset | 11,588 | 10,365 | - | 1,223 | 999 | - | 224 |
| Property, plant and equipment | 15,544 | ( 653) | - | 16,197 | 3,397 | - | 12,800 |
| Accrued investment income | (34,579) | ( 492) | - | (34,087) | ( 515) | - | (33,572) |
| Other accounts payable | 1,770 | 531 | - | 1,239 | 245 | - | 994 |
| Investment properties | ( 782) | ( 302) | - | ( 480) | ( 110) | - | ( 370) |
| Gain on exchange | ( 162) | 533 | - | ( 695) | ( 262) | - | ( 433) |
| Retirement benefits obligation | 57,520 | 4,255 | 6,893 | 46,372 | 4,602 | 3,243 | 38,527 |
| | 50,899 | 14,237 | 6,893 | 29,769 | 8,356 | 3,243 | 18,170 |

16. Deferred taxation (cont'd)

**Group**

Net deferred taxation assets/(liabilities) are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Intangible asset | 11,588 | 1,223 | - | - | 11,588 | 1,223 |
| Property, plant and equipment | 15,544 | 16,197 | (249) | ( 23) | 15,295 | 16,174 |
| Accrued investment income | (34,579) | (34,087) | ( 5) | ( 9) | (34,584) | (34,096) |
| Other accounts payable | 1,770 | 1,239 | - | - | 1,770 | 1,239 |
| Investment properties | ( 782) | ( 480) | - | - | ( 782) | ( 480) |
| Gain on exchange | ( 162) | ( 695) | - | - | ( 162) | ( 695) |
| Retirement benefits | 57,520 | 46,372 | - | - | 57,520 | 46,372 |
| Net deferred tax assets/ (liabilities) | 50,899 | 29,769 | (254) | ( 32) | 50,645 | 29,737 |

Movement in net temporary differences during the year are as follows:

| | 2016 $'000 | Recognised in income $'000 (note 22) | Recognised in other comprehensive income $'000 | 2015 $'000 | Recognised in income $'000 (note 22) | Recognised in other comprehensive income $'000 | 2014 $'000 |
|---|---|---|---|---|---|---|---|
| Intangible asset | 11,588 | 10,365 | - | 1,223 | 999 | - | 224 |
| Property, plant and equipment | 15,295 | ( 879) | - | 16,174 | 3,397 | - | 12,777 |
| Accrued investment income | (34,584) | ( 488) | - | (34,096) | ( 515) | - | (33,581) |
| Other accounts payable | 1,770 | 531 | - | 1,239 | 245 | - | 994 |
| Investment properties | ( 782) | ( 302) | - | ( 480) | ( 110) | - | ( 370) |
| Gain on exchange | ( 162) | 533 | - | ( 695) | ( 262) | - | ( 433) |
| Retirement benefits obligation | 57,520 | 4,255 | 6,893 | 46,372 | 4,602 | 3,243 | 38,527 |
| | 50,645 | 14,015 | 6,893 | 29,737 | 8,356 | 3,243 | 18,138 |

17. Share capital

**Company and Group**

| | 2016 $'000 | 2015 $'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.

18. Capital reserve

**Company and Group**

| | 2016 $'000 | 2015 $'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 |

19. Investment revaluation reserve

**Company and Group**

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

20. Operating expenses

| | **Company and Group** | |
|---|---|---|
| | 2016 $'000 | 2015 $'000 |
| Administration, including employee costs | 829,833 | 753,225 |
| Advertising | 68,048 | 44,627 |
| Management fees | 34,642 | 34,642 |
| Insurance levies | 35,103 | 31,340 |
| Repairs and maintenance | 54,713 | 37,526 |
| Utilities | 27,710 | 28,141 |
| Directors' emoluments - fees | 8,812 | 8,750 |
| - management | 27,942 | 12,522 |
| Audit fees - current | 10,789 | 9,808 |
| - prior year | - | 1,795 |
| Depreciation of property, plant and equipment | 55,144 | 44,693 |
| Amortisation of intangible asset | 20,975 | 6,658 |
| Bad debts written-off | 6,568 | 7,193 |
| | 1,180,279 | 1,020,920 |

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2016

## 21. Investment income

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| Interest income - available-for-sale financial assets | 459,388 | 425,667 | 459,445 | 425,763 |
| Dividend income – available-for-sale financial assets | 13,517 | 14,946 | 13,517 | 14,946 |
| Rental income, net | 4,627 | 2,436 | 4,627 | 2,436 |
| | 477,532 | 443,049 | 477,589 | 443,145 |
| Net gain on disposal of available-for-sale financial assets | 174,874 | 41,399 | 174,874 | 41,399 |
| Gain on disposal of investment property | - | 19,302 | - | 19,302 |
| | 174,874 | 60,701 | 174,874 | 60,701 |
| Total investment income, net | 652,406 | 503,750 | 652,463 | 503,846 |

## 22. Taxation

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

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| (i) Current taxation: | | | | |
| Income tax at 33⅓% | 158,114 | 252,332 | 157,848 | 254,756 |
| Tax credits | - | ( 27,496) | - | ( 28,489) |
| | 158,114 | 224,836 | 157,848 | 226,267 |
| (ii) Deferred taxation: | | | | |
| Origination and reversal of temporary differences (note 16) | ( 14,237) | ( 8,356) | ( 14,015) | ( 8,356) |
| | 143,877 | 216,480 | 143,833 | 217,911 |

Deferred tax is computed at 33⅓% for the company and 25% for the subsidiary.

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
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22. Taxation (cont'd)

(b) Reconciliation of actual tax expense:

(i) **Company**

The effective tax rate was 21.16% (2015: 26.67%) of pre-tax profits compared to a statutory tax rate of 33⅓%. The actual expense differed from the "expected" tax expense for the year as follows:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Profit before taxation | 680,794 | 811,589 |
| Computed "expected" tax charge at 33⅓% | 226,931 | 270,530 |
| Depreciation, amortisation and capital allowances | ( 720) | 2,400 |
| Other | 3,631 | 8,184 |
| Tax exempt revenues | ( 3,942) | ( 2,740) |
| Capital gains | ( 82,128) | ( 34,809) |
| Dividend income | 105 | 111 |
| Tax relief on approved capital expenditure [22(d)] | - | ( 27,196) |
| | 143,877 | 216,480 |

(ii) **Group**

The effective tax rate was 21.36% (2015: 26.58%) of pre-tax profits compared to statutory tax rates of 33⅓% for the company and 25% for the subsidiary. The actual expense differed from the "expected" tax expense for the year as follows:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Profit before taxation | 674,039 | 819,770 |
| Computed "expected" tax charge at 33⅓% | 226,931 | 270,530 |
| Computed "expected" tax charge at 25% | ( 1,689) | 2,044 |
| Depreciation, amortisation and capital allowances | ( 720) | 2,400 |
| Tax exempt revenues | ( 3,942) | ( 2,740) |
| Capital gains | (82,128) | ( 34,809) |
| Dividend income | 105 | 111 |
| Tax losses attributable to subsidiary | 419 | - |
| Tax relief on approved capital expenditure [22(d)] | - | ( 27,196) |
| Others | 4,857 | 7,571 |
| | 143,833 | 217,911 |

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

(d) This represents the tax relief obtained in respect of approved capital expenditure in the carrying out of improvement work in a designated area under the Urban Renewal (Tax Relief) Act.

23. Related parties

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

**Company**

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| (i) The Jamaica National Building Society: | | |
| Cash and cash equivalents | 20,339 | 13,478 |
| Certificates of deposit | 431,538 | - |
| Accounts payable | ( 57) | ( 8,910) |
| (ii) JN Fund Managers Limited: | | |
| Resale agreements | 58,797 | 220,103 |
| Accrued investment income | 193 | 1,316 |
| (iii) The Jamaica Automobile Association | | |
| Due to subsidiary | ( 11,272) | ( 10,669) |
| (iv) Manufacturers Credit and Information Services Limited: | | |
| Accounts receivable/(payable) | 109 | ( 195) |
| (v) Management Control Systems Limited: | | |
| Property, plant and equipment purchased | 12,651 | 38,787 |

**Group**

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| (i) The Jamaica National Building Society: | | |
| Cash and cash equivalents | 20,847 | 14,915 |
| Certificates of deposit | 431,538 | - |
| Accounts payable | (16,098) | ( 16,431) |
| (ii) JN Fund Managers Limited: | | |
| Resale agreements | 60,497 | 221,783 |
| Accrued investment income | 209 | 1,316 |
| (iii) Manufacturers Credit and Information Services Limited: | | |
| Accounts receivable/(payable) | 6,573 | ( 195) |
| (iv) Management Control Systems Limited: | | |
| Property, plant and equipment purchased | 12,651 | 38,787 |

23. Related parties (cont'd)

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

**Company**

| | | | 2016 | 2015 |
|---|---|---|---|---|
| | | | $'000 | $'000 |
| Income: | | | | |
| Management fee | - | fellow subsidiary | - | 524 |
| Interest income | - | parent Society | 4,074 | - |
| | - | fellow subsidiary | 15,075 | 19,209 |
| Gross written premiums | - | parent Society | 93,177 | 92,952 |
| | - | fellow subsidiaries | 24,455 | 14,596 |
| | - | JNBS Pension Fund | 1,153 | 1,178 |
| | - | subsidiary | 2,276 | ( 82) |
| Expenses: | | | | |
| Computer maintenance | - | fellow subsidiary | 326 | 322 |
| Life insurance premium | - | fellow subsidiary | 5,163 | 3,585 |
| Management fees | - | parent Society | 34,642 | 34,642 |
| Advertising | - | fellow subsidiary | 14,103 | 198 |
| Rental expense | - | parent Society | 1,096 | 1,172 |
| | - | fellow subsidiary | 3,988 | 3,502 |
| Client assistance services | - | subsidiary | 61,320 | 60,435 |
| Claims expenses | - | parent Society | 6,257 | 1,396 |
| | - | fellow subsidiary | 263 | 382 |
| | - | subsidiary | - | 827 |

Transactions with key management personnel (directors and senior executives)

| | | |
|---|---|---|
| Short-term employment benefits: | | |
| Post-employment | Nil | Nil |
| Salaries, included in staff costs (note 31) | 53,979 | 49,815 |

**Group**

| | | | 2016 | 2015 |
|---|---|---|---|---|
| | | | $'000 | $'000 |
| Income: | | | | |
| Interest income | - | parent Society | 4,074 | - |
| | - | fellow subsidiary | 15,131 | 19,303 |
| Gross written premiums | - | parent Society | 93,177 | 92,952 |
| | - | fellow subsidiaries | 24,455 | 14,596 |
| | - | JNBS Pension Fund | 1,153 | 1,170 |
| Fleet service income | - | parent Society | 28,448 | 18,000 |
| Expenses: | | | | |
| Computer maintenance | - | fellow subsidiary | 1,169 | 2,194 |
| Life insurance premium | - | fellow subsidiary | 5,650 | 3,585 |
| Management fees | - | parent Society | 47,833 | 47,832 |
| Advertising | - | fellow subsidiary | 14,103 | 198 |
| Rental expense | - | parent Society | 1,096 | 1,172 |
| | - | fellow subsidiary | 5,595 | 4,506 |
| Claims expenses | - | parent Society | 6,257 | 1,396 |

Transactions with key management personnel (directors and senior executives)

| | | |
|---|---|---|
| Short-term employment benefits: | | |
| Post-employment | Nil | Nil |
| Salaries, included in staff costs (note 31) | 66,230 | 63,364 |

24. Reinsurance limits

The company has property catastrophe reinsurance up to a maximum of $38.025 billion of which the Quota Share is $34.22 billion (2015: $31.83 billion) and Catastrophe Excess of Loss $3.805 billion (2015: $3.18 billion) per event under which it is liable for the first $400 million (2015: $400 million) of losses in accordance with the terms of the policies. Motor catastrophe reinsurance cover is US$4 million (2015: US$4 million) per event. The company limits its net exposure to a maximum amount on any one loss of $101.98 million (2015: $95.71 million) for property claims, $7.5 million (2015: $6.25 million) 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, 2016 and 2015.

25. 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.

25. Insurance risk management (cont'd)

(b) Reinsurance strategy (cont'd)

Ceded reinsurance results in credit risk. The company manages reinsurance risk by selecting reinsurers which have established capability to meet its 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 28(a).

(c) Terms and conditions of general insurance contracts

All general insurance contracts are issued for one year. 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.<br><br>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 the loss or damage to their own material property and business interruption arising from this damage. | The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property.<br><br>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.)<br><br>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. |

25. Insurance risk management (cont'd)

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

| | | |
|---|---|---|
| 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 by some motorists to obey traffic signals 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.<br>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.

(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<br>$'000 | Property<br>$'000 | Motor<br>$'000 | Other<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| At December 31, 2016 | | | | | |
| Gross | 327,341 | 125,552 | 1,779,182 | 21,779 | 2,253,854 |
| Net of reinsurance | 259,592 | 18,225 | 1,751,834 | 8,074 | 2,037,725 |
| At December 31, 2015 | | | | | |
| Gross | 319,512 | 43,563 | 1,647,248 | 22,217 | 2,032,540 |
| Net of reinsurance | 310,121 | 9,541 | 1,613,598 | 12,396 | 1,945,656 |

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25. Insurance risk management (cont'd)

(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 develop 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 & prior $'000 | 2012 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | Total $'000 |
| Estimate of cumulative claims at end of accident year | 2,374,536 | 947,424 | 940,096 | 899,093 | 1,039,487 | 1,285,664 | |
| - one year later | 2,101,780 | 854,657 | 828,349 | 775,982 | 969,568 | - | |
| - two years later | 2,058,406 | 783,723 | 826,844 | 734,173 | - | - | |
| - three years later | 2,083,715 | 761,672 | 813,480 | - | - | - | |
| - four years later | 2,023,074 | 771,396 | - | - | - | - | |
| - five years later | 2,045,240 | - | - | - | - | - | |
| Estimate of cumulative claims | 2,045,240 | 771,396 | 813,480 | 734,173 | 969,568 | 1,285,664 | 6,619,521 |
| Cumulative payments | (1,650,913) | (652,477) | (640,611) | (548,373) | ( 646,304) | ( 443,118) | (4,581,796) |
| Net outstanding liabilities | 394,327 | 118,919 | 172,869 | 185,800 | 323,264 | 842,546 | 2,037,725 |

26. 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 group's underwriting policy [note 25 (a)].

(b) Secondly, the risk is managed through the use of reinsurance [note 25(b)]. The company arranges proportional reinsurance at the risk level and purchases excess of loss cover for liability and property business. The company assesses the costs and benefits associated with the reinsurance programme on a regular basis.

## 27. 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 yields 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, due to their short-term nature. |
| Quoted equities | Bid prices published by the Jamaica Stock Exchange. |
| Unitised funds | Unit prices provided by the fund manager. |

The following table sets out the fair values of financial instruments using the valuation methods and assumptions described below. 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.

**Company**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| Financial assets: | | | | |
| Short-term investments | 1,521,310 | 1,521,188 | 1,479,294 | 1,479,294 |
| Available for sale financial assets | 5,615,881 | 5,615,881 | 5,152,037 | 5,152,037 |
| Insurance receivables | 553,981 | 553,981 | 514,861 | 514,861 |
| Cash and cash equivalents | 240,829 | 240,829 | 239,349 | 239,349 |
| | 7,932,001 | 7,931,879 | 7,385,541 | 7,385,541 |
| Financial liabilities: | | | | |
| Accounts payable | 142,866 | 142,866 | 142,427 | 142,427 |
| Insurance payables | 329,116 | 329,116 | 290,362 | 290,362 |
| Due to parent Society | 57 | 57 | 8,910 | 8,910 |
| Due to subsidiary | 11,272 | 11,272 | 10,669 | 10,669 |
| | 483,311 | 483,311 | 452,368 | 452,368 |

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

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

**Group**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| Financial assets: | | | | |
| Short-term investments | 1,523,010 | 1,522,888 | 1,480,974 | 1,480,974 |
| Available for sale financial assets | 5,615,881 | 5,615,881 | 5,152,037 | 5,152,037 |
| Insurance receivables | 553,981 | 553,981 | 514,861 | 514,861 |
| Cash and cash equivalents | 244,621 | 244,621 | 257,486 | 257,486 |
| | 7,937,493 | 7,937,371 | 7,405,358 | 7,405,358 |

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying value $'000 | Fair value $'000 | Carrying value $'000 | Fair value $'000 |
| Financial liabilities: | | | | |
| Accounts payable | 170,749 | 170,749 | 160,650 | 160,650 |
| Insurance payables | 329,116 | 329,116 | 290,362 | 290,362 |
| Due to parent Society | 16,098 | 16,098 | 16,431 | 16,431 |
| | 515,963 | 515,963 | 467,443 | 467,443 |

(ii) Determination of fair value and fair values 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.

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

The group 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.

**Company and Group**

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Available for sale financial assets | 430,383 | 5,185,498 | - | 5,615,881 |

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Available for sale financial assets | 344,145 | 4,807,892 | - | 5,152,037 |

28. Financial risk management

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

Credit risk
Liquidity risk
Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the group's financial risk management framework. The group's risk management policies are established to identify, assess and measure the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the group 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 group manages financial risk by matching the timing of cash flows from assets and liabilities. The group 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 group can meet its obligations without undue cost and in accordance with its internal and regulatory capital requirements.

28. Financial risk management (cont'd)

(a) Credit risk

The risk of financial loss to the group if a counterparty fails to meet its contractual obligations.

The group'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.

Counterparty credit risk

With the exception of Government of Jamaica securities, there is no significant concentration of credit risk related to liquid fund and debt securities. Additionally, these assets are held with financial institutions which management regards as reputable and sound. These entities are regularly reviewed and risk rated by the Risk Management Unit of the parent Society.

Cash and cash equivalents:

These are held with reputable financial institutions and collateral is not required for such accounts as management regards the institutions as strong.

Investment securities and resale agreements:

These debt securities are mainly government issued debt for which risk of default is considered low by regulators. The group 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 amount 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 group'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 group 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 Risk Management Unit of the parent society.

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

28. Financial risk management (cont'd)

(a) Credit risk (cont'd)

*Management of credit risk*

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

The group 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.

**Company**

| | AA<br>$'000 | A<br>$'000 | B<br>$'000 | Not rated<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| December 31, 2016 | | | | | |
| Financial assets | | | | | |
| Carrying amount | - | - | 6,672,533 | 34,275 | 6,706,808 |
| Reinsurance assets (excluding unearned premium reserve): | | | | | |
| Carrying amount | - | 216,129 | - | - | 216,129 |
| Insurance and other receivables (excluding prepayments) | | | | | |
| Impaired | - | - | - | 24,473 | 24,473 |
| Neither past due nor impaired | - | - | - | 297,021 | 297,021 |
| Past due but not impaired | - | - | - | 323,964 | 323,964 |
| Carrying amount | - | - | - | 645,458 | 645,458 |
| Cash and cash equivalents: | | | | | |
| Carrying amount | - | - | - | 240,829 | 240,829 |
| | - | 216,129 | 6,672,533 | 920,562 | 7,809,224 |
| December 31, 2015 | | | | | |
| Financial assets | | | | | |
| Carrying amount | - | - | 6,249,211 | 37,975 | 6,287,186 |
| Reinsurance assets (excluding unearned premium reserve): | | | | | |
| Carrying amount | - | 86,884 | - | - | 86,884 |
| Insurance and other receivables (excluding prepayments) | | | | | |
| Impaired | - | - | - | 18,036 | 18,036 |
| Neither past due nor impaired | - | - | - | 269,981 | 269,981 |
| Past due but not impaired | - | - | - | 294,404 | 294,404 |
| Carrying amount | - | - | - | 582,421 | 582,421 |
| Cash and cash equivalents: | | | | | |
| Carrying amount | - | - | - | 239,349 | 239,349 |
| | - | 86,884 | 6,249,211 | 859,745 | 7,195,840 |

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Notes to the Financial Statements (Continued)
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28. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Management of credit risk (cont'd)

**Group**

| | AA<br>$'000 | A<br>$'000 | B<br>$'000 | Not rated<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| December 31, 2016 | | | | | |
| Financial assets | | | | | |
| Carrying amount | - | - | 6,674,233 | 34,275 | 6,708,508 |
| Reinsurance assets (excluding unearned premium reserve): | | | | | |
| Carrying amount | - | 216,129 | - | - | 216,129 |
| Insurance and other receivables (excluding prepayments) | | | | | |
| Impaired | - | - | - | 24,473 | 24,473 |
| Neither past due nor impaired | - | - | - | 297,021 | 297,021 |
| Past due but not impaired | - | - | - | 323,964 | 323,964 |
| Carrying amount | - | - | - | 645,458 | 645,458 |
| Cash and cash equivalents: | | | | | |
| Carrying amount | - | - | - | 244,621 | 244,621 |
| | - | 216,129 | 6,674,233 | 924,354 | 7,814,716 |
| December 31, 2015 | | | | | |
| Financial assets | | | | | |
| Carrying amount | - | - | 6,250,891 | 37,975 | 6,288,866 |
| Reinsurance assets (excluding unearned premium reserve): | | | | | |
| Carrying amount | - | 86,884 | - | - | 86,884 |
| Insurance and other receivables (excluding prepayments) | | | | | |
| Impaired | - | - | - | 18,036 | 18,036 |
| Neither past due nor impaired | - | - | - | 279,317 | 279,317 |
| Past due but not impaired | - | - | - | 294,404 | 294,404 |
| Carrying amount | - | - | - | 591,757 | 591,757 |
| Cash and cash equivalents: | | | | | |
| Carrying amount | - | - | - | 257,486 | 257,486 |
| | - | 86,884 | 6,250,891 | 887,218 | 7,224,993 |

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

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

28. Financial risk management (cont'd)

(a) 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 is as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Company and Group** | | |
| Allied Insurance Brokers Limited | 65,389 | 65,528 |
| Billy Craig Insurance Brokers Limited | 39,611 | 25,958 |
| CGM Gallagher Insurance Brokers Limited | 41,165 | 32,883 |
| Desmond Mair Insurance Brokers Limited | 31,919 | 31,054 |
| Thwaites Finson Sharp Insurance Brokers Limited | 53,325 | 33,597 |
| Maritime General Insurance Brokers Limited | 73,302 | 97,414 |
| Nationwide Insurance Agents & Consultants | 32,339 | - |
| | 337,050 | 286,434 |

The group 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.

**Company and Group**

| | 2016 | | | | |
|---|---|---|---|---|---|
| | 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 | 55,386 | 8,764 | 27,339 | - | 91,489 |
| - agents, brokers and intermediaries | 156,984 | 59,399 | 252,935 | 17,647 | 486,965 |
| | 212,370 | 68,163 | 280,274 | 17,647 | 578,454 |
| Allowance for impairment | - | - | ( 24,473) | - | ( 24,473) |
| | 212,370 | 68,163 | 255,801 | 17,647 | 553,981 |

28. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Concentrations of credit risk (cont'd)

**Company and Group (cont'd)**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | 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 | 45,291 | 11,267 | 30,961 | - | 87,519 |
| - agents, brokers and intermediaries | 161,136 | 50,400 | 219,812 | 14,030 | 445,378 |
| | 206,427 | 61,667 | 250,773 | 14,030 | 532,897 |
| Allowance for impairment | - | - | ( 18,036) | - | ( 18,036) |
| | 206,427 | 61,667 | 232,737 | 14,030 | 514,861 |

Assets that are individually impaired:

**Company and Group**

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Gross $'000 | Net $'000 | Gross $'000 | Net $'000 |
| Insurance and other receivables | 24,473 | 24,473 | 18,036 | 18,036 |

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.

(b) Liquidity risk

Liquidity risk is the potential for loss to the group 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 Group 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

28. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

ii. *Asset/Market Liquidity Risk* - is the group's inability 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 group'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 group 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 group also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The group 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 110% (2015: 104%). The level set by the regulator is 95%.

An analysis of the contractual maturities of the group'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.

**Company**

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Contractual undiscounted cash flows | | | | | |
| | Carrying Amount $'000 | Total cash outflow $'000 | Less than 1 year $'000 | 1-2 years $'000 | 2-5 years $'000 | 5 -10 years $'000 | More than 10 years $'000 |
| Financial liabilities | | | | | | | |
| - Accounts payable and accrued charges | 142,866 | 142,866 | 142,866 | - | - | - | - |
| - Insurance payables | 329,116 | 329,116 | 329,116 | - | - | - | - |
| - Due to subsidiary | 11,272 | 11,272 | 11,272 | - | - | - | - |
| - Due to parent Society | 57 | 57 | 57 | - | - | - | - |
| Total financial liabilities | 483,311 | 483,311 | 483,311 | - | - | - | - |
| Insurance contract liabilities: | | | | | | | |
| - Claims outstanding | 2,253,854 | 2,253,854 | 1,010,085 | 534,686 | 397,480 | 281,619 | 29,984 |
| | 2,737,165 | 2,737,165 | 1,493,396 | 534,686 | 397,480 | 281,619 | 29,984 |

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December 31, 2016

28. Financial risk management (cont'd)

(b) Liquidity risk (cont'd):

**Company (cont'd)**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Contractual undiscounted cash flows | | | | | |
| | Carrying Amount $'000 | Total cash outflow $'000 | Less than 1 year $'000 | 1-2 years $'000 | 2-5 years $'000 | 5 -10 years $'000 | More than 10 years $'000 |
| Financial liabilities | | | | | | | |
| - Accounts payable and accrued charges | 142,427 | 142,427 | 142,427 | - | - | - | - |
| - Insurance payables | 290,362 | 290,362 | 290,362 | - | - | - | - |
| - Due to subsidiary | 10,669 | 10,669 | 10,669 | - | - | - | - |
| - Due to parent Society | 8,910 | 8,910 | 8,910 | - | - | - | - |
| Total financial liabilities | 452,368 | 452,368 | 452,368 | - | - | - | - |
| Insurance contract liabilities: | | | | | | | |
| - Claims outstanding | 2,032,540 | 2,032,540 | 737,809 | 556,605 | 327,073 | 369,670 | 41,383 |
| | 2,484,908 | 2,484,908 | 1,190,177 | 556,605 | 327,073 | 369,670 | 41,383 |

**Group**

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Contractual undiscounted cash flows | | | | | |
| | Carrying Amount $'000 | Total cash outflow $'000 | Less than 1 year $'000 | 1-2 years $'000 | 2-5 years $'000 | 5-10 years $'000 | More than 10 years $'000 |
| Financial liabilities | | | | | | | |
| - Accounts payable and accrued charges | 170,749 | 170,749 | 170,749 | - | - | - | - |
| - Insurance payables | 329,116 | 329,116 | 329,116 | - | - | - | - |
| - Due to parent Society | 16,098 | 16,098 | 16,098 | - | - | - | - |
| Total financial liabilities | 515,963 | 515,963 | 515,963 | - | - | - | - |
| Insurance contract liabilities: | | | | | | | |
| -Claims outstanding | 2,253,854 | 2,253,854 | 1,010,085 | 534,686 | 397,480 | 281,619 | 29,984 |
| | 2,769,817 | 2,769,817 | 1,526,048 | 534,686 | 397,480 | 281,619 | 29,984 |

28. Financial risk management (cont'd)

(b) Liquidity risk (cont'd):

**Group (cont'd)**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Contractual undiscounted cash flows | | | | | |
| | Carrying Amount | Total cash outflow | Less than 1 year | 1-2 years | 2-5 years | 5-10 years | More than 10 years |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial liabilities | | | | | | | |
| - Accounts payable and accrued charges | 160,650 | 160,650 | 160,650 | - | - | - | - |
| - Insurance payables | 290,362 | 290,362 | 290,362 | - | - | - | - |
| - Due to parent Society | 16,431 | 16,431 | 16,431 | - | - | - | - |
| Total financial liabilities | 467,443 | 467,443 | 467,443 | - | - | - | - |
| Insurance contract liabilities: | | | | | | | |
| -Claims outstanding | 2,032,540 | 2,032,540 | 737,809 | 556,605 | 327,073 | 369,670 | 41,383 |
| | 2,499,983 | 2,499,983 | 1,205,252 | 556,605 | 327,073 | 369,670 | 41,383 |

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

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the group's assets, the amount of the group's liabilities and/or the group's income. Market risk arises in the group due to fluctuations in the value of liabilities and the value of investments held. The group 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 group'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 Loan 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 group 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 group at the reporting date to each major risk are addressed below.

28. Financial risk management (cont'd)

(c) 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 arise primarily from the group's investments.

The group 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 group'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 group'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.

**Company**

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | |
| Cash and cash equivalents | 240,829 | - | - | - | - | 240,829 | 0.11 |
| Short-term investments | - | 1,786,646 | - | - | - | 1,786,646 | 4.06 |
| Investments | - | - | 821,414 | 4,098,748 | 430,383 | 5,350,545 | 7.61 |
| Total financial assets | 240,829 | 1,786,646 | 821,414 | 4,098,748 | 430,383 | 7,378,020 | |
| Liabilities | | | | | | | |
| Accounts payable and accrued charges | - | - | - | - | 142,866 | 142,866 | |
| Total financial liabilities | - | - | - | - | 142,866 | 142,866 | |
| On-statement of financial position gap, being total interest rate sensitivity gap | 240,829 | 1,786,646 | 821,414 | 4,098,748 | 287,517 | 7,235,154 | |
| Cumulative gap | 240,829 | 2,027,475 | 2,848,889 | 6,947,637 | 7,235,154 | - | |

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Notes to the Financial Statements (Continued)
December 31, 2016

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd):

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

**Company**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | |
| Cash and cash equivalents | 239,349 | - | - | - | - | 239,349 | 0.18 |
| Short-term investments | - | 1,761,198 | - | - | - | 1,761,198 | 5.81 |
| Investments | - | - | - | 4,525,988 | 344,145 | 4,870,133 | 8.14 |
| Total financial assets | 239,349 | 1,761,198 | - | 4,525,988 | 344,145 | 6,870,680 | |
| Liabilities | | | | | | | |
| Accounts payable and accrued charges | - | - | - | - | 142,427 | 142,427 | |
| Total financial liabilities | - | - | - | - | 142,427 | 142,427 | |
| On-statement of financial position gap, being total interest rate sensitivity gap | 239,349 | 1,761,198 | - | 4,525,988 | 201,718 | 6,728,253 | |
| Cumulative gap | 239,349 | 2,000,547 | 2,000,547 | 6,526,535 | 6,728,253 | - | |

**Group**

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | | | | | | | |
| Cash and cash equivalents | 244,621 | - | - | - | - | 244,621 | 0.11 |
| Short-term investments | - | 1,788,346 | - | - | - | 1,788,346 | 4.06 |
| Investments | - | - | 821,414 | 4,098,748 | 430,383 | 5,350,545 | 7.61 |
| Total financial assets | 244,621 | 1,788,346 | 821,414 | 4,098,748 | 430,383 | 7,383,512 | |
| Liabilities | | | | | | | |
| Accounts payable and accrued charges | - | - | - | - | 170,749 | 170,749 | |
| Total financial liabilities | - | - | - | - | 170,749 | 170,749 | |
| On-statement of financial position gap, being total interest rate sensitivity gap | 244,621 | 1,788,346 | 821,414 | 4,098,748 | 259,634 | 7,212,763 | |
| Cumulative gap | 244,621 | 2,032,967 | 2,854,381 | 6,953,129 | 7,212,763 | - | |

JN GENERAL INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2016

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd):

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

**Group**

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | Three to 12 months | Over 1 year | Non-rate sensitive | Total | Weighted average interest rate |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | % |
| Assets | | | | | | | |
| Cash and cash equivalents | 257,486 | - | - | - | - | 257,486 | 0.17 |
| Short-term investments | - | 1,762,878 | - | - | - | 1,762,878 | 5.81 |
| Investments | - | - | - | 4,525,988 | 344,145 | 4,870,133 | 8.14 |
| Total financial assets | 257,486 | 1,762,878 | - | 4,525,988 | 344,145 | 6,890,497 | |
| Liabilities | | | | | | | |
| Accounts payable and accrued charges | - | - | - | - | 160,650 | 160,650 | |
| Total financial liabilities | - | - | - | - | 160,650 | 160,650 | |
| On-statement of financial position gap, being total interest rate sensitivity gap | 257,486 | 1,762,878 | - | 4,525,988 | 183,495 | 6,729,847 | |
| Cumulative gap | 257,486 | 2,020,364 | 2,020,364 | 6,546,352 | 6,729,847 | - | |

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

| | **Increase in interest rate** | | **Decrease in interest rate** | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| J$ denominated instruments | 100 basis points | 100 basis points | 100 basis points | 150 basis points |
| US$ denominated instruments | 100 basis points | 100 basis points | 50 basis points | 50 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.

**Company**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Effect on profit | | Effect on profit | |
| | Increase | Decrease | Increase | Decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Other comprehensive income | (66,099) | 54,470 | (78,360) | 108,448 |

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd):

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

*Fair value sensitivity analysis for fixed rate instruments (cont'd):*

**Group**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Effect on profit | | Effect on profit | |
| | Increase | Decrease | Increase | Decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Other comprehensive income | (66,099) | 54,470 | (78,360) | 108,448 |

*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.

| | **Company** | | **Group** | |
|---|---|---|---|---|
| | Effect on profit | | Effect on profit | |
| | Increase | Decrease | Increase | Decrease |
| | $'000 | $'000 | $'000 | $'000 |
| December 31, 2016 | | | | |
| Variable rate instruments | 29,673 | (27,661) | 29,690 | (27,678) |
| | Increase | Decrease | Increase | Decrease |
| | $'000 | $'000 | $'000 | $'000 |
| December 31, 2015 | | | | |
| Variable rate instruments | 27,649 | (40,557) | 27,666 | (40,582) |

There has been no change in the group'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 group 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 group's investment strategy is to maximise risk-adjusted investment returns.

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

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

Management of market risk (cont'd):

(ii) Equity price risk (cont'd):

**Company and Group**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Equity | Profit before taxation | Equity | Profit before taxation |
| | $'000 | $'000 | $'000 | $'000 |
| 10% (2015: 20%) increase | 40,810 | - | 68,829 | - |
| 10% (2015: 20%) decrease | (40,810) | - | (22,386) | (46,443) |

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

(iii) Foreign currency risk:

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

The group 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 group ensures that the net exposure is kept to an acceptance level by monitoring its daily positions against approved limits.

At the statement of financial position date, net foreign currency asset exposure was as follows:

**Company and Group**

| | 2016 | 2015 |
|---|---|---|
| | $'000 | $'000 |
| United States dollars (US$) | 9,339 | 9,034 |
| Pounds Sterling (£) | 8 | 14 |

Exchange rates were as follows:

| | USD |
|---|---|
| At March 23, 2017 | 127.71 |
| At December 31, 2016 | 127.48 |
| At December 31, 2015 | 119.64 |

28. Financial risk management (cont'd)

(c) Market risk (cont'd)

(iii) Foreign currency risk (cont'd):

Sensitivity analysis:

**Company and Group**

| Movement of J$ against the US$ | Increase/(decrease) in profit before taxation | |
|---|---|---|
| | 2016 | 2015 |
| | $'000 | $'000 |
| 6% (2015: 8%) weakening | 71,434 | 86,464 |
| 1% (2015: 1%) strengthening | (11,906) | (10,808) |

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

29. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the group's processes, personnel, technology and infrastructure, and from external factors, other than financial 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 group'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 JN Group's Risk Management Unit and in daily operations through the senior management team of the group.

This responsibility is supported by the development of overall JN Group's 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;

29. Operational risk (cont'd)

This responsibility is supported by the development of overall JN Group's standards for the management of operational risk in the following areas (cont'd):

- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective;

The JN Group's Risk Management Unit conducts frequent operational risk reviews of business lines in keeping with established policies and is supported with independent reviews undertaken by JN Group's Internal Audit and Group Compliance. 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 group's exposure to operational risk or the manner in which it managed the risk during the year.

30. Capital risk management

The group'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 group operates;

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

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

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

Regulatory capital

General insurers must maintain at least a minimum level of assets, capital and surplus to meet the liabilities of the company. The regulator requires the ratio of available assets to required assets to be 250% (2015: 250%) under the terms of the Minimum Capital Test (MCT).

The MCT ratio attained by the company at December 31, 2016 was 279% (2015: 278%).

31. Employee costs

| | Company | | Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'000 |
| Salaries and wages | 396,727 | 349,955 | 433,826 | 383,706 |
| Incentive awards | 68,170 | 62,239 | 68,170 | 62,239 |
| Pension | 15,450 | 16,185 | 15,450 | 16,185 |
| Other employee costs | 138,499 | 125,956 | 138,499 | 125,956 |
| | 618,846 | 554,335 | 655,945 | 588,086 |

32. Capital commitments

At December 31, 2016, the group had commitments for capital expenditure of $30,499,000 (2015: $45,722,000).

33. Changes in accounting policies

Except for the changes below, the group has consistently applied the accounting policies set out in note 34 to all periods presented in these consolidated financial statements.

The group has adopted the following amendments to standards with a date of initial application of January 1, 2016.

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

- IAS 1 *Presentation of Financial Statements* has been amended to clarify or state the following:
  - Specific single disclosures that are not material do not have to be presented even if they are the minimum requirements of a standard.
  - The order of notes to the financial statements is not prescribed.
  - Line items on the statement of financial position and the statement of profit or loss and other comprehensive income (OCI) should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material.
  - Specific criteria are now provided for presenting subtotals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirements for the statement of profit or loss and OCI.
  - The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never be, reclassified to profit or loss.

33. Changes in accounting policies (cont'd)

- IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation,* are amended as follows:

  - The amendment to IAS 16 *Property, Plant and Equipment* explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.

  - The amendment to IAS 38 *Intangible Assets* introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.

- Amendments to IAS 27 *Equity Method in Separate Financial Statements* allow the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, associates, and joint ventures.

- Amendments to IFRS 10 *Consolidated Financial Statements,* and IAS 28 *Investments in Associates and Joint Ventures,* in respect of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* require that when a parent loses control of a subsidiary in a transaction with an associate or joint venture, the full gain be recognised when the assets transferred meet the definition of a 'business' under IFRS 3 *Business Combinations*.

- IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* have been amended to introduce clarifications on which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit or loss. IFRS 10 was amended to confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. An investment entity shall measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. IAS 28 was amended to provide an exemption from applying the equity method for investment entities that are subsidiaries and that hold interests in associates and joint ventures. IFRS 12 was amended to clarify that the relevant disclosure requirements in the standard apply to an investment entity in which all of its subsidiaries are measured at fair value through profit or loss.

- *Improvements to* IFRS *2012-2014* Cycle contain amendments to certain standards and interpretations applicable to the Group as follows:

  - IFRS 7 *Financial Instruments: Disclosures,* has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred assets in cases when they are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

    IFRS 7 has also been amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets* and *Financial Liabilities (Amendment to IFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of IAS 34 *Interim Financial Reporting*, require their inclusion.

33. Changes in accounting policies (cont'd)

- *Improvements to* IFRS *2012-2014* Cycle (cont'd)

  - IAS 19 *Employee Benefits,* has been amended to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not the country level.

The adoption of these amendments did not result in any changes to the amounts recognized or disclosed in the financial statements.

34. Significant accounting policies

Except for the changes explained in note 33, the group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

( i) Subsidiaries:

A "subsidiary" is an enterprise controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases. The consolidated financial statements comprise the financial results of the company and its subsidiary prepared up to December 31, 2016.

(ii) Transactions eliminated on consolidation:

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Intangible asset:

(i) Computer software:

Expenditure relating to the acquisition of computer software is measured at cost, less accumulated amortisation and impairment losses [note 34(p)].

(ii) Amortisation:

Amortisation is charged to profit or loss on a 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.

34. Significant accounting policies (cont'd)

(c) Property, plant and equipment and depreciation:

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses [note 34(p)]. 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 group 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% |

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

(d) Investment properties:

Investment properties are measured at cost less accumulated depreciation and impairment losses [note 34(p)].

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

(e) Investments:

Available-for-sale investments are stated at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost, with any movements in fair value included in investment revaluation reserve. 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 group on the date it commits to purchase or sell the investments.

Other investments are recognised or derecognised on the day they are transferred to/by the group.

34. Significant accounting policies (cont'd)

(f) 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.

(g) Revenue recognition:

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the policyholder. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

Revenue comprises the following:

(i) Gross written premiums

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 34(h)(i).

(ii) Commission income

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

(iv) Sale of services

Revenue is recognised on the accrual basis. Revenue is recognised when the significant risks and rewards of ownership have been transferred or services have been delivered to the buyer and collection is reasonably certain.

34. Significant accounting policies (cont'd)

(h) 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 recognized 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 before the end of the financial year and is actuarially determined.

*Outstanding claims*

Outstanding claims comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on the historical experience of the company. The 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.

34. Significant accounting policies (cont'd)

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

(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 24, 25 and 26). 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 statement of reporting date.

A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the company will receive from the 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.

(i) Inventories:

These materially comprise consumable supplies for use in the subsidiary's business and are measured at the lower of cost, determined principally on the first-in, first-out basis, and net realisable value.

(j) 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.

34. Significant accounting policies (cont'd)

(j) Taxation (cont'd):

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

Deferred tax is 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 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.

(k) Accounts receivable:

Trade and other receivables are measured at amortised cost less impairment losses [note 34(p)].

(l) Cash and cash equivalents:

Cash and cash equivalents are measurement at 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 group'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.

(m) Accounts payable and provision:

Accounts payable are measured at amortised cost.

A provision is recognised in the statement of financial position when the group 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.

(n) Related parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements.

34. Significant accounting policies (cont'd)

(n) Related parties (cont'd):

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.

   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 of 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.

(o) Employee benefits:

Employee benefits are all forms of consideration given by the group 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.

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.

34. Significant accounting policies (cont'd)

(o) Employee benefits (cont'd):

Defined contribution pension scheme:

Pension scheme costs included in the profit or loss represent contributions to the defined-contribution scheme which is operated by The Jamaica National Building Society (JNBS) to provide retirement pensions for the group's employees. Contributions to the scheme, made on the basis provided for in the rules, are expensed in the year in which they are incurred.

(p) Impairment:

The carrying amounts of the group'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 group'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 assets' 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.

(q) Dividends:

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

34. Significant accounting policies (cont'd)

(r) 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, insurance receivables, other accounts receivable, accrued investment income and cash and cash equivalents. Financial liabilities include bank overdraft, accounts payable, insurance payables, and amounts due to the Society.

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 recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(s) 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 group has access at that date. The fair value of a liability reflects its on-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 group policy on the determination of fair value is disclosed in note 27.

(t) 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 has not been early-adopted by the group. Those which are considered relevant to the group are as follows:

- Amendments to IAS 7 *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

  The group is assessing the impact that this amendment may have on its 2017 financial statements.

34. Significant accounting policies (cont'd)

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

- Amendments to IAS 12 *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

  The group is assessing the impact that this amendment may have on its 2017 financial statements.

- IFRS 9 *Financial Instruments,* which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

  The group is assessing the impact that this standard may have on its 2018 financial statements.

34. Significant accounting policies (cont'd)

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

- Amendments to IFRS 4 *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018*)*, and IFRS 4 *Insurance Contracts* (expected to be effective in 2020 or later) as follows*:*

  (i) Temporary exemption from IFRS 9:

  - Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement.*
  - To qualify, a reporting company's activities need to be predominantly connected with insurance.

  Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

  (ii) Overlay approach:

  For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

  There will be new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

  The group is assessing the impact that this amendment may have on its 2018 financial statements.

- IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after January 1, 2018, replaces IAS 11 *Construction Contracts*, IAS 18 Revenue, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The group will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance. There will be new qualitative and quantitative disclosure requirements to describe the nature amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

  The group is assessing the impact that this standard may have on its 2018 financial statements.

34. Significant accounting policies (cont'd)

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

- IFRS 16 *Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

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

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

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

- Amendments to IAS 40 *Transfers of Investment Property*, effective for annual reporting periods beginning on or after January 1, 2018, clarifies when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or cease to meet the definition of investment property and there is evidence of the change in use.

  The entity has a choice on transition to apply the prospective approach – i.e. apply the amendments to transfers that occur after the date of initial application – and also reassess the classification of property assets held at that date; or apply the amendments retrospectively in accordance with IAS 8, but only if it does not involve the use of hindsight.

  The group is assessing the impact that this amendment may have on its 2018 financial statements.

34. Significant accounting policies (cont'd)

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

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income or initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

  An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

  The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

  The group is assessing the impact that this interpretation may have on its 2018 financial statements.