BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

INDEPENDENT AUDITORS' REPORT

To the Members of
BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of British Caribbean Insurance Company Limited ("the company"), set out on pages 4 to 70, which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2018, and of its 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 *Auditor's 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

March 22, 2019

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2018 and December 31, 2017

	Notes	2018	2017
		$'000	$'000
ASSETS			
Property, plant and equipment	7	141,844	144,782
Intangible assets	8	183,312	172,967
Investment in associate	9	31,268	-
Investments	10	3,029,934	2,550,000
Deferred acquisition costs	11	214,012	159,329
Reinsurance assets	12	2,103,275	1,529,629
Insurance and other receivables	13	1,255,483	897,491
Deferred tax asset	21	6,065	-
Taxation recoverable		206,006	127,613
Due from related companies	14	85,221	67,243
Short-term investments	15	2,082,249	2,074,522
Securities purchased under resale agreements	16	1,857,210	1,621,325
Cash and cash equivalents		1,701,647	1,770,326
		12,897,526	11,115,227
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank overdraft, unsecured	17	7,618	7,951
Insurance and other payables	18	1,334,514	1,081,633
Employee benefit obligation	19	37,273	40,113
Deferred commission income	20	288,128	200,183
Deferred tax liability	21	-	9,535
Insurance contract provisions	12	7,911,884	6,408,705
Due to related companies	14	36	16,249
		9,579,453	7,764,369
Share capital	22	959,200	959,200
Capital reserves	23	120,476	120,476
Investment revaluation reserve		201,482	150,237
Employee benefit reserve		(27,221)	(27,568)
Retained earnings		2,064,136	2,148,513
		3,318,073	3,350,858
		12,897,526	11,115,227

The financial statements, on pages 4 to 70 were approved for issue by the Board of Directors on March 22, 2019, and signed on their behalf by:

________________ Director
Vikram Dhiman

________________ Director
Paul Hanworth

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Years ended December 31, 2018 and December 31, 2017

	Notes	2018	2017
		$'000	$'000
Gross premiums written	24,12(b)	8,820,710	6,985,082
Change in gross provision for unearned premiums		(991,706)	(389,074)
Gross insurance premium revenue	12(b)	7,829,004	6,596,008
Written premiums ceded to reinsurers	12(b)	(5,126,369)	(3,830,476)
Reinsurers' share of change in provision for unearned premiums		523,962	231,959
Net insurance premium revenue		3,226,597	2,997,491
Claims expenses incurred	12(a)	(2,758,531)	(2,451,888)
Reinsurers' share of claims and benefits incurred	12(a)	503,065	540,288
Net insurance claims	12(a)	(2,255,466)	(1,911,600)
Commission expense	11	(465,399)	(411,968)
Commission income	20	693,814	596,761
Net commission income		228,415	184,793
		1,199,546	1,270,684
Operating expenses	25(b)	(1,171,852)	(1,144,044)
Underwriting profit before other expenses, other income and taxation		27,694	126,640
Other expenses		(180,074)	(184,501)
Investment income, net	26	406,444	461,106
Gain on sale of investments		3,040	440,544
Gain on sale of property, plant and equipment		85	-
Gains on securities measured at fair value through profit or loss		7,612	-
Other income		128,493	94,785
Foreign exchange gains/(losses), net		23,666	(41,424)
Profit before taxation	25	416,960	897,150
Taxation	27	(151,037)	(255,882)
Profit for the year		265,923	641,268
Other comprehensive income			
Items that may be reclassified to profit or loss			
Fair value gains/(losses) on investments		68,169	(301,971)
Re-measurement gains/(losses) on employee benefit obligation	19	520	(10,588)
Tax on re-measurement loss on employee benefit obligation	21	(173)	3,529
Total other comprehensive income/(loss)		68,516	(309,030)
Total comprehensive income for the year		334,439	332,238

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Years ended December 31, 2018 and December 31, 2017

	Share Capital $'000 (Note 22)	Capital reserves $'000 (Note 23)	Investment revaluation reserve $'000	Employee benefit reserve $'000	Retained earnings $'000	Total $'000
Balances at December 31, 2016	959,200	120,476	452,208	(20,509)	1,736,442	3,247,817
Profit for the year	-	-	-	-	641,268	641,268
Other comprehensive income:						
Fair value gains on investments	-	-	133,181	-	-	133,181
Realised change in fair value of available for sale investments	-	-	(435,152)	-	-	(435,152)
Re-measurement loss on employee benefit obligation)	-	-	-	(7,059)	-	(7,059)
Total comprehensive (loss)/income	-	-	(301,971)	(7,059)	641,268	332,238
Dividends paid (Note 33)	-	-	-	-	(229,197)	(229,197)
Net change for the year	-	-	(301,971)	(7,059)	412,071	103,041
Balances at December 31, 2017	959,200	120,476	150,237	(27,568)	2,148,513	3,350,858
Adjustment on initial application of IFRS 9 (note 5)	-	-	6,090	-	(24,117)	(18,027)
Restated balances as at January 1, 2018	959,200	120,476	156,327	(27,568)	2,124,396	3,332,831
Profit for the year	-	-	-	-	265,923	265,923
Other comprehensive income:						
Fair value gains on investments	-	-	69,821	-	-	69,821
Fair value gains on investments through other comprehensive income	-	-	(1,652)	-	-	(1,652)
	-	-	68,169	-	-	68,169
Realised change in fair value of available for sale investments	-	-	(23,014)	-	23,014	-
Re-measurement loss on employee benefit obligation	-	-	-	347	-	347
Total comprehensive income	-	-	45,155	347	288,937	334,439
Dividends paid (Note 33)	-	-	-	-	(349,197)	(349,197)
Net change for the year	-	-	45,155	347	(60,260)	(14,758)
Balances at December 31, 2018	959,200	120,476	201,482	(27,221)	2,064,136	3,318,073

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Cash Flows
Years ended December 31, 2018 and December 31, 2017

	Notes	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		265,923	641,268
Adjustments for:			
Depreciation	7	38,076	37,409
Gain on sale of investments		(3,040)	(440,544)
Increase in insurance contract provisions		1,503,179	1,015,383
Amortisation of intangible assets	8	57,053	36,413
Gain on disposal of property, plant and equipment		(85)	-
Employee benefits, (net)	19	(2,320)	(1,239)
Exchange gain / (loss) on investments		(23,666)	41,424
Interest income	26	(392,188)	(441,613)
Taxation	27	151,037	255,882
		1,593,969	1,144,383
Changes in:			
Deferred acquisition costs		(54,683)	(14,243)
Insurance and other receivables		(943,645)	(711,876)
Due from related companies		(17,978)	(32,538)
Insurance and other payables		252,881	186,792
Deferred commission income		87,945	34,460
Due to related companies		(16,213)	9,197
		902,276	616,175
Interest received		404,195	399,772
Taxation paid		(245,203)	(154,577)
Net cash provided by operating activities		1,061,268	861,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal		85	-
Short term investments, net		(7,727)	(1,389,445)
Securities (purchased) / disposed under resale agreements		(235,885)	15,679
Investments, net		(414,881)	(396,488)
Proceeds from sale of investment		11,795	642,476
Acquisition of property, plant and equipment	7	(35,138)	(27,321)
Additions to intangible assets	8	(67,398)	(90,715)
Investment in associate	9	(31,268)	-
Net cash used by investing activities		(780,417)	(1,245,814)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid, being net cash used by financing activity	33	(349,197)	(229,197)
Net decrease in cash and cash equivalents		(68,346)	(613,641)
Cash and cash equivalents at beginning of the year		1,762,375	2,376,016
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,694,029	1,762,375

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Cash Flows (Continued)
Years ended December 31, 2018 and December 31, 2017

	Notes	2018 $'000	2017 $'000
Comprised of:			
Cash and bank balances		565,737	545,372
Short-term investments		1,135,910	1,224,954
		1,701,646	1,770,326
Less: Bank overdraft, unsecured	17	(7,618)	(7,951)
		1,694,029	1,762,375

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

1. Corporate structure and nature of business

The company, which is incorporated and domiciled in Jamaica, is a 68.5% subsidiary of ICD Group Holdings Limited (ICDH). ICDH is also incorporated in Jamaica. As of December 17, 2015, the shares held by ICD Group Limited (a company incorporated in Jamaica) were transferred to ICDH. The ultimate parent company is ICD Investments Limited, which is incorporated in St. Lucia.

The principal activity of the company is the underwriting of general insurance business in Jamaica under a license from the Financial Services Commission. The registered office of the company is situated at 36 Duke Street, Kingston, Jamaica. The company obtained approval from the Financial Services Commission of Barbados to operate a branch in Barbados effective July 10, 2017.

2. Insurance licence

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

3. Roles of the actuary and auditors

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

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

4. Basis of preparation

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the relevant provisions of the Jamaican Companies Act. This is the first set of the Company's annual financial statements in which IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in note 5.

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The company assessed them and has adopted those which are relevant to its financial statements, as follows:

4. Basis of preparation (cont'd)

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

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. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will be accounted for in a similar manner to a fixed payment inter-bearing financial obligation. As a result 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.

- IFRS 17, *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2022, replaces IFRS 4, *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

  The key principles in IFRS 17 are that an entity:

  - identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

  - separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.

  - recognises and measures groups of insurance contracts at:

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

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

4. Basis of preparation (cont'd)

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

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

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

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

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

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

(b) Basis of preparation:

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

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

(c) Use of estimates and judgements:

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

4. Basis of preparation (cont'd)

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

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

(i) Judgements:

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

– Applicable to 2018 only:

(1) Classification of financial assets:

The assessment of the business model within which assets are held and assessment of whether the contractual terms of financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements of its business operations.

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL require significant judgement.

– Applicable to 2017 only:

(3) Allowance for impairment losses on receivables:

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

4. Basis of preparation (cont'd)

(c) Use of estimates and judgements:

(ii) Key assumptions concerning the future and other sources of estimation uncertainty:

– Applicable to 2018 and 2017:

(1) Fair value of financial instruments:

There are no quoted market prices for a significant portion of the company's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as Level 2 in the fair value hierarchy. The estimates of fair value arrived at from these sources may be different from the actual price of the instrument in an actual arm's length transaction [see note 32].

(iii) Outstanding claims:

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

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

Notes 12 and 28 contain information about the assumptions and uncertainties relating to insurance liabilities and discloses the risk factors in these contracts. Note 29 contains information about the risks and uncertainties associated with financial instruments.

5. Changes in accounting policies

The Company has initially adopted IFRS 9 *Financial Instruments* from January 1, 2018.

A number of other new standards were also effective from January 1, 2018 but they do not have a material effect on the company's financial statements.

Due to the transition method chosen by the company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect the requirements of the new standards. The effect of initially applying these standards is mainly additional disclosures related to IFRS 9 (see notes 6, 10, 15, 16 and 29).

5. Changes in accounting policies (cont'd)

IFRS 9, *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in separately in the statement of profit or loss and OCI. Additionally, the company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the company's accounting policies and the full impact resulting from its adoption of IFRS 9 are summarized below.

The impact, net of tax, of transition to IFRS 9 on the opening accumulated profit is as follows:

	$'000
Accumulated profit	
Closing balance under IAS 39 (December 31, 2017)	2,148,513
Recognition of expected credit losses under IFRS 9	
Investments and resale agreements	(24,117)
Opening balance under IFRS 9 (January 1, 2018)	2,124,396

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the company classifies financial instruments under IFRS 9 [see note 6(o)].

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

5. Changes in accounting policies (cont'd)

Impairment of financial assets (cont'd)

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets and financial liabilities as at January 1, 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	Remeasurement	IFRS 9 carrying amount at January 1, 2018
			$'000	$'000	$'000
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised cost	1,770,326	-	1,770,326
Resale agreements	Loans and receivables	Amortised cost	1,621,325	(8,498)	1,612,827
Investment – certificates of deposits	Loans and receivables	Amortised cost	1,433,740	-	1,433,740
Investment – Quoted equities	Available for sale	Fair value through other comprehensive income and profit and loss	224,670	-	224,670
Investment – Government of Jamaica Securities	Available for sale	Fair value through other comprehensive income	1,305,926	(2,114)	1,303,812
Investment – Unit Trust	Loans and receivables	Amortised cost	4,802	-	4,802
Corporate Bond	Loans and receivables	Amortised cost	336,857	(3,387)	333,470
Term deposit - BBD	Loans and receivables	Amortised cost	15,517	-	15,517
Investment – Government of Jamaica Securities	Loans and receivables	Amortised cost	1,302,115	(10,103)	1,292,012
IAJ Debenture	Available for sale	Fair value through other comprehensive income	895	(15)	880
			8,016,173	(24,117)	7,992,056

6. Significant accounting policies

Except for the changes below, the company has consistently applied the accounting policies as set out in note 5 to all periods presented in these financial statements.

(a) Short-term investments:

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

(b) Insurance and other receivables:

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

(c) Insurance and other payables:

Insurance and other payables are measured at amortised cost.

(d) Provisions:

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

(e) Related parties:

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

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

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

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

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

6. Significant accounting policies (cont'd)

(e) Related parties (cont'd):

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

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

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

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

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

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

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

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

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

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

The company has a related party relationship with its directors, parent company, and jointly controlled entities, and group post-employment benefit plans, as well as with their directors, trustees and key management personnel. "Key management personnel" represents certain senior officers of the company.

(f) Property, plant and equipment:

(i) Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

Freehold land and buildings that had been revalued to fair value prior to January 1, 2002, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

6. Significant accounting policies (cont'd)

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

(ii) Depreciation:

Fixed assets are depreciated using the straight-line method at annual rates estimated to write down the fixed assets to their estimated residual values at the end of their expected useful lives.

No depreciation is charged on freehold land. The depreciation rates for other assets are as follows:

Freehold buildings	3⅓%
Furniture, fixture and equipment	10%
Motor vehicles	33⅓%
Computer equipment	33⅓%
Leasehold improvements	10%

Depreciation methods, useful lives and residual values are reassessed annually.

(g) Intangible assets and amortisation:

(i) Computer software

This includes computer software acquired by the company or acquired through business combination. These are measured at cost less accumulated amortisation and impairment losses.

Computer software is amortised from the date the software is available for use. The estimated useful life of computer software is 3 years.

(ii) Goodwill:

Goodwill of a subsidiary represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired, less contingent liabilities.

Goodwill is measured at cost and is tested annually for impairment.

(iii) Customer relationships:

This represents the carrying value of acquired customer relationships, primarily for insurance business and is measured at cost less impairment losses. Customer relationships are determined to have indefinite useful lives but are tested annually for impairment.

6. Significant accounting policies (cont'd)

(h) Foreign currencies:

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

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

(i) Impairment of financial assets:

Policy applicable from January 1, 2018

The company recognises loss allowances for ECL on debt instruments that are not measured at FVTPL.

The company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

6. Significant accounting policies (cont'd)

(i) Impairment of financial assets:

Policy applicable from January 1, 2018

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised costs are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer; or
- the disappearance of an active market for a security because of financial difficulties

In making an assessment of whether an investment in sovereign debt is credit-impaired, the company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as financial assets measured at amortised cost; as a deduction from the gross carrying amount of the assets;

6. Significant accounting policies (cont'd)

(i) Impairment of financial assets (cont'd):

Policy applicable from January 1, 2018 (cont'd)

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the company's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

An allowance for impairment is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

(j) Impairment of non-financial assets:

(i) Calculation of recoverable amount:

The recoverable amount of the company's investment securities classified as loans and receivables and other receivables 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 fair value less cost to sell 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.

6. Significant accounting policies (cont'd)

(j) Impairment of non-financial assets (cont'd):

(ii) Reversals of impairment:

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

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

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

(k) Insurance contracts recognition and measurement:

(i) Recognition and measurement

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

Gross written premiums

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

Unearned premiums

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

Unexpired risks

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

Outstanding claims

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

6. Significant accounting policies (cont'd)

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

(i) Recognition and measurement (cont'd)

Outstanding claims

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

Deferred acquisition cost and deferred commission income

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

(ii) Reinsurance assets

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

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

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

(iii) Insurance receivable and insurance payable

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables.

6. Significant accounting policies (cont'd)

(l) Revenue:

Revenue is recognised in the income statement 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 6(k)(i).

(ii) Commission income

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts [see note 6(k)(ii)]. Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

(iii) Interest:

Policy applicable from January 1, 2018

Interest income and expense are recognised in profit or loss for using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

Effective interest rate

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

6. Significant accounting policies (cont'd)

(l) Revenue (cont'd):

(iii) Interest (cont'd):

Policy applicable from January 1, 2018

Amortised cost and gross carrying amount (cont'd)

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and interest expense

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that have become credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost, and interest on debt instruments measured at FVOCI.

Policy applicable before January 1, 2018

Interest income and interest expense are recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortisation of premium on instruments bought at a premium.

6. Significant accounting policies (cont'd)

(l) Revenue (cont'd):

(iii) Interest (cont'd):

Policy applicable from January 1, 2018 (cont'd)

Calculation of interest income and interest expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that have become credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to the gross basis even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets and financial liabilities measured at amortised cost, and interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Policy applicable before January 1, 2018

Interest income and interest expense are recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortisation of premium on instruments bought at a premium.

6. Significant accounting policies (cont'd)

(l) Revenue (cont'd):

(iii) Interest (cont'd):

Policy applicable before January 1, 2018

Gain or loss on holding and trading securities

Gain or loss on securities trading is recognised when the company becomes a party to a contract to dispose of the securities, or, in the case of financial assets measured at fair value, upon remeasurement of those assets.

(m) Taxation:

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

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

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

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

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

6. Significant accounting policies (cont'd)

(n) Employee benefits:

(i) Defined contribution plan

The company is a participating employer in a defined benefit group pension scheme. The defined scheme is effectively guaranteed by the parent company and does not expose the participating subsidiaries to actuarial risks. This plan is therefore accounted for as a defined contribution plan in the financial statements of the individual participating subsidiaries, that is, pension contributions are expensed as and when they fall due.

(ii) Other post-retirement benefits

The company also provides post-retirement health care to existing pensioners and employees retiring with the next five years.

The expected costs of these benefits are accrued over the period of employment, and the present value of future benefits at the reporting date is shown as an obligation on the statement of financial position.

Post-employment obligations included in these financial statements have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuation was conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors make use of the work of the actuary and the actuary's report.

All actuarial re-measurement gains and losses are recognised in other comprehensive income. Any gain or loss on curtailment is recognised as in profit or loss.

(iii) Other employee benefits

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

6. Significant accounting policies (cont'd)

(o) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise cash and cash equivalents, investments, insurance recoverables, amounts due from related parties and other recoverable and restricted cash. Financial liabilities include accounts payable, insurance payables and related party balances.

(i) Recognition and initial measurement

Debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

6. Significant accounting policies (cont'd)

(o) Financial instruments (cont'd):

(ii) Classification and subsequent measurement (cont'd)

Financial assets – Policy applicable from January 1, 2018(cont'd)

On initial recognition of an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by- investment basis.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieve by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from January 1, 2018

The company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

6. Significant accounting policies (cont'd)

(o) Financial instruments (cont'd):

(ii) Classification and subsequent measurement (cont'd)

Financial assets – Policy applicable from January 1, 2018(cont'd)

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

The company's objective is achieved by both collecting contractual cash flows and selling financial assets.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the company considers the following:
- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- terms that limit the company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

6. Significant accounting policies (cont'd)

(o) Financial instruments (cont'd):

(ii) Classification and subsequent measurement (cont'd)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018 (cont'd)

Reclassification

Financial assets are not reclassified subsequent to their initial recognition except in the period after the company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first reporting period following the change in business model.

Policy applicable before January 1, 2018

Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased.

The company classified non-derivative financial assets into the following categories:

- *Loans and receivables:* Securities acquired with fixed or determinable payments and which were not quoted in an active market, were classified as loans and receivables..
- *Available for sale:* Securities acquired which are quoted in an active market were classified as available for sale investments. They were intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates or market price.
- *Other financial liabilities:* The company classified non-derivative financial liabilities into this category.

(iii) Derecognition:

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

6. Significant accounting policies (cont'd)

(o) Financial instruments (cont'd):

(iii) Derecognition (cont'd):

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. An example of such transactions are sale-and-repurchase transactions.

In transactions in which the company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

Policy applicable from January 1, 2018

- Financial assets at FVTPL-These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
- Financial assets at amortised cost-These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Debt investments at FVOCI-These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- Unquoted equity investments at FVOCI-These assets are subsequently measured at fair value. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

6. Significant accounting policies (cont'd)

(o) Financial instruments (cont'd):

(iv) Measurement and gains and losses (cont'd):

Policy applicable before January 1, 2018

Loans *and receivables:* On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

A*vailable-for-sale:* On initial recognition, they are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.
- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(v) Offsetting:

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

6. Significant accounting policies (cont'd)

(p) Securities purchased under resale agreements:

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

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

(q) Investment in associate:

An associate is an entity over which the company has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, including transaction costs.

(r) Share capital:

Preference share capital is classified as equity in accordance with the Companies Act 2004. The shares are non-redeemable and have a right to a fixed dividend.

(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. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

(t) Dividends:

Dividends on preference shares are recognised in shareholders' equity in the period in which they become due based on the rights attached to this class of shares.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

7. Property, plant and equipment

	Freehold land and buildings $'000	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Motor vehicles $'000	Total $'000
Cost:					
December 31, 2016	144,019	25,002	214,920	1,694	385,635
Additions	-	9,989	17,332	-	27,321
Write off	-	-	(298)	-	(298)
December 31, 2017	144,019	34,991	231,954	1,694	412,658
Additions	-	2,294	32,844	-	35,138
Write off	-	-	(7,604)	-	(7,604)
December 31, 2018	144,019	37,285	257,194	1,694	440,192
Accumulated depreciation:					
December 31, 2016	78,147	6,801	144,399	1,418	230,765
Charge for the year	4,052	2,975	30,278	104	37,409
Eliminated on write off	-	-	(298)	-	(298)
December 31, 2017	82,199	9,776	174,379	1,522	267,876
Charge for the year	4,052	3,579	30,341	104	38,076
Eliminated on write off	-	-	(7,604)	-	(7,604)
December 31, 2018	86,251	13,355	197,116	1,626	298,348
Net book values					
December 31, 2018	57,768	23,930	60,078	68	141,844
December 31, 2017	61,820	25,215	57,575	172	144,782

At December 31, 1995, the company's buildings were valued at open market value by independent valuators Langford and Brown, Valuers and Real Estate Agents. The revalued amounts were deemed to be the assets' cost on first time adoption of IFRS. The previously reported surplus on revaluation is included in capital reserves. Freehold land and buildings include freehold land at a cost of $22,459,000 (2017: $22,459,000).

8. Intangible assets

	Computer software $'000	Customer loyalty $'000	Goodwill $'000	Total $'000
Cost:				
December 31, 2016	82,862	25,600	54,944	163,406
Additions	90,715	-	-	90,715
December 31, 2017	173,577	25,600	54,944	254,121
Additions	67,398	-	-	67,398
December 31, 2018	240,975	25,600	54,944	321,519
Amortisation:				
December 31, 2016	44,741	-	-	44,741
Charge for the year	36,413	-	-	36,413
December 31, 2017	81,154	-	-	81,154
Charge for the year	57,053	-	-	57,053
December 31, 2018	138,207	-	-	138,207
Net book values:				
December 31, 2018	102,768	25,600	54,944	183,312
December 31, 2017	92,423	25,600	54,944	172,967

9. Investment in associate

During the year the company acquired a 45% shareholding in Statera Underwriting Management Limited, which provides insurance management services.

10. Investments

	2018				2017		
	Fair value through other comprehensive income $'000	Amortised cost $'000	Fair value through Profit and loss $'000	Total $'000	Loans and receivables $'000	Available for sale $'000	Total $'000
Government of Jamaica securities – US$ Bonds	1,158,735	-	-	1,158,735	-	1,139,244	1,139,244
Quoted shares	-	-	88,599	88,599	-	224,670	224,670
Other securities	96,860	-	-	96,860	-	-	-
Government of Jamaica securities – J$ Bonds	278,071	696,427	-	974,498	843,887	166,682	1,010,569
Corporate bonds – US$ and J$	-	701,257	-	701,257	160,000	-	160,000
Term deposit – BD$	-	15,855	-	15,855	15,517	-	15,517
	1,533,666	1,413,539	88,599	3,035,804	1,019,404	1,530,596	2,550,000
Less impairment allowance	-	(5,870)	-	(5,870)	-	-	-
	1,533,666	1,407,669	88,599	3,029,934	1,019,404	1,530,596	2,550,000

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

10. Investments (cont'd)

Investments include foreign currency investments aggregating US$10,049,000 (2017: US$9,217,000). A certificate of deposit of $50,000,000 was held to the order of the Financial Services Commission in Jamaica, as required by the Insurance Act and a term deposit of BD$250,000 was held to the order of the Financial Services Commission in Barbados.

11. Deferred acquisition costs

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

	2018 $'000	2017 $'000
Balance January 1	159,329	145,086
Commission paid during the year	520,082	426,211
Amounts recognised in income during the year	(465,399)	(411,968)
Balance December 31	214,012	159,329

12. Reinsurance assets and insurance contract provisions

Analysis of movements in reinsurance assets and insurance contract provisions:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims outstanding	4,478,730	605,556	3,873,174	3,967,257	555,872	3,411,385
Unearned premiums	3,433,154	1,497,719	1,935,435	2,441,448	973,757	1,467,691
	7,911,884	2,103,275	5,808,609	6,408,705	1,529,629	4,879,076

(a) Claims outstanding:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims notified	3,404,358	344,226	3,060,132	2,874,224	274,300	2,599,924
Claims incurred but not reported	562,899	211,646	351,253	466,724	128,434	338,290
Balance at January 1	3,967,257	555,872	3,411,385	3,340,948	402,734	2,938,214
Claim expenses incurred	2,758,531	503,065	2,255,466	2,451,888	540,288	1,911,600
Claims paid in year	(2,247,058)	(453,381)	(1,793,677)	(1,825,579)	(387,150)	(1,438,429)
Change in outstanding claims provision	511,473	49,684	461,789	626,309	153,138	473,171
Balance at December 31	4,478,730	605,556	3,873,174	3,967,257	555,872	3,411,385

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

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

(a) Claims outstanding (cont'd):

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Analysis:						
Claims notified	3,847,717	432,182	3,415,535	3,404,358	344,226	3,060,132
Claims incurred but not reported	631,013	173,374	457,639	562,899	211,646	351,253
Balance December 31	4,478,730	605,556	3,873,174	3,967,257	555,872	3,411,385

Outstanding claims include claims payable to related parties of $32,540,000 (2017: $25,193,000).

(b) Unearned premiums:

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Balance January 1	2,441,448	973,757	1,467,691	2,052,374	741,798	1,310,576
Premiums written during the year	8,820,710	5,126,369	3,694,341	6,985,082	3,830,476	3,154,606
Premiums earned during the year	(7,829,004)	(4,602,407)	(3,226,597)	(6,596,008)	(3,598,517)	(2,997,491)
Balance December 31	3,433,154	1,497,719	1,935,435	2,441,448	973,757	1,467,691

(c) Gross unearned premiums are analysed as follows:

	2018 $'000	2017 $'000
Motor	1,874,934	1,327,701
Property	1,105,552	684,946
Pecuniary loss	281,536	245,294
Loss liability	73,974	67,722
Engineering	97,158	115,785
	3,433,154	2,441,448

Process used to determine the assumptions for measuring insurance contracts:

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

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

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

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

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

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

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

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

13. Insurance and other receivables

	2018 $'000	2017 $'000
Premiums receivable	484,877	418,615
Insurance premium financing	483,585	258,868
Prepaid expenses	11,114	7,772
Accrued investment income	112,865	124,872
Other receivables	163,042	87,364
	1,255,483	897,491

13. Insurance and other receivables (cont'd)

	2018 $'000	2017 $'000
Gross premium receivable	622,883	512,887
Less allowance for impairment	(138,006)	(94,272)
	484,877	418,615
Insurance premium financing	514,287	279,844
Less allowance for impairment	(30,702)	(20,976)
	483,585	258,868

Information relating to credit risk management and the maturity profile of insurance receivables is outlined in more detail in note 29(a)(i) and (iii).

Movement on allowance for impairment of insurance is as follows:

	2018 $'000	2017 $'000
At January 1	115,248	88,065
Increase in allowance for impairment of receivables	53,460	27,183
December 31	168,708	115,248

14. Due from/to related companies

	2018 $'000	2017 $'000
Due from related companies:		
CGM Gallagher Insurance Brokers Jamaica Limited	66,219	67,243
Statera Underwriting Managers Limited*	19,002	-
	85,221	67,243
Due to parent and other related parties:		
ICD Group Holdings Limited	36	7,052
The Victoria Mutual Building Society	-	9,197
	36	16,249

These balances were incurred in the normal course of business.

* This US$150,000 unsecured loan, bears interest of 5% per annum. The first instalment is due June 30, 2019 and then quarterly thereafter. Loan matures November 28, 2021.

15. Short-term investments

	2018			2017		
	Amortised cost	Fair value through other comprehensive income	Total	Loans and receivables	Available for sale	Total
	$'000	$'000	$'000	$'000	$'000	$'000
IAJ debenture	-	895	895	-	895	895
Government of Jamaica securities – J$ bonds	185,075	15,435	200,510	458,228	-	458,228
Other securities	4,900	-	4,900	4,802	-	4,802
Certificate of deposits	1,495,955	-	1,495,955	1,433,740	-	1,433,740
Corporate bonds	381,987	-	381,987	176,857	-	176,857
	2,067,917	16,330	2,084,247	2,073,627	895	2,074,522
Less impairment allowance	(1,998)	-	(1,998)	-	-	-
	2,065,919	16,330	2,082,249	2,073,627	895	2,074,522

Corporate bonds include investments denominated in foreign currency aggregating US$562,500 (2017: US$1,431,000). Other securities include investments denominated in foreign currency aggregating US$38,000 (2017: US$38,000).

16. Securities purchased under resale agreements

	2018	2017
	$'000	$'000
Principal	1,867,004	1,621,325
Less impairment allowance	(9,794)	-
	1,857,210	1,621,325

The fair value of the underlying securities held as collateral amounts to $1,867,271,000 (2017: $1,646,579,000).

17. Bank overdraft

The company does not have any bank overdraft facility. The negative balance arose from unpresented cheques.

18. Insurance and other payables

	2018	2017
	$'000	$'000
Payables arising from insurance and reinsurance contracts due to other insurance companies	708,570	561,956
Commission payable	97,910	75,969
Other payables and accrued charges	528,034	443,708
	1,334,514	1,081,633

Insurance and other payables includes $22 million (2017: $25 million) owed to a related party in the normal course of business.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

19. Employee benefit obligation

The company's obligation in respect of post-employment benefits has been recognised primarily in respect of medical benefits for pensioners as follows:

(i) Movements in the present value of the medical obligation recognised in the statement of financial position:

	2018 $'000	2017 $'000
Balance as at January 1	40,113	30,764
Included in profit or loss:		
Current service costs	(1,997)	(1,654)
Interest costs	(323)	415
	(2,320)	(1,239)
Included in other comprehensive income:		
Actuarial (gains)/losses:		
Experience losses	6,016	11,108
Re-measurement gains	(6,536)	(520)
	(520)	10,588
Balance at December 31	37,273	40,113

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

	2018 %	2017 %
Discount rate at end of year	7	8
Future increases in medical premiums	3	5

(iv) Sensitivity analysis of key economic assumptions:

A one percent point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the post-employment benefit obligation by amounts shown below.

	2018		2017	
	1% Increase $'000	1% Decrease $'000	1% Increase $'000	1% Decrease $'000
Discount rate	(4,878)	6,230	(5,776)	7,505
Assumed medical cost Trend	6,435	(5,089)	7,667	(5,970)

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

19. Employee benefit obligation (cont'd)

The analysis assumes that all other variables remain constant.

(v) Liability duration

The average liability duration are as follows:

	2018	2017
Active members and all participants (years)	51.5	51

20. Deferred commission income

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

	2018 $'000	2017 $'000
Balance January 1	200,183	165,723
Commission received during the year	781,759	631,221
Amounts recognised in income during the year	(693,814)	(596,761)
Balance December 31	288,128	200,183

21. Deferred tax liability

Deferred tax liability is attributable to the following:

	December 31, 2016 $'000	Recognised in income $'000 [note 27(a)]	Recognised in equity $,000	December 31, 2017 $'000	Recognised in income $'000 [note 27(a)]	Recognised in equity $'000	December 31, 2018 $'000
Property, plant and equipment	505	11,790	-	12,295	12,335	-	24,630
Gain on exchange	750	(1,066)	-	(316)	(2,673)	-	(2,989)
Accounts payable	5,038	558	-	5,596	509	-	6,105
Employee benefits	10,255	(413)	3,529	13,371	(774)	(173)	12,424
Accrued investment income	(20,861)	(19,620)	-	(40,481)	6,376	-	(34,105)
	(4,313)	(8,751)	3,529	(9,535)	15,773	(173)	6,065

22. Share capital

	2018 $'000	2017 $'000
Authorised:		
160,000,000 ordinary shares of no par value		
85,000,000 20% non redeemable preference shares of no par value		
Stated, issued and fully paid:		
145,985,401 ordinary shares of no par value	784,579	784,579
72,992,701 20% non redeemable preference shares of no par value	174,621	174,621
	959,200	959,200

23. Capital reserves

(i) This comprises of realised gains on disposal of investments of $27,541,000 (2017: $27,541,000) and unrealised gains on revaluation of property, plant and equipment of $92,935,000 (2017: $92,935,000).

(ii) Realised capital reserves are available for distribution to shareholders, subject to transfer tax at 5% (2017: 5%).

24. Gross premiums written

Gross premiums written include $112,028,000 (2017: $132,388,000) arising from transactions with related parties.

25. Disclosure of expenses

Profit before taxation is stated after charging:

(a) Related party transactions:

	2018 $'000	2017 $'000
Transactions with fellow subsidiaries:		
Commission expense	74,236	50,479
Transactions with ultimate parent company:		
Management fees:		
- Parent company	98,348	98,348
- Non-controlling shareholder	34,489	34,489
	132,837	132,837
Compensation of key management personnel is as follows:		
Short term employment benefits		
Salary	96,418	110,120
Pension contributions [see note 6(n)]	11,186	11,541
	107,604	121,661

25. Disclosure of expenses (cont'd)

(b) Operating expenses:

	2018 $'000	2017 $'000
Depreciation	38,076	37,409
Amortisation	57,053	36,413
Directors' emoluments		
Fees	5,004	4,550
Remuneration	28,135	28,309
Staff costs	546,587	623,827
Pension	(2,320)	(1,239)
Auditors' remuneration	10,223	10,817
Data processing charge and maintenance	62,272	44,104
Advertising and promotion	77,563	64,772
Professional fees	62,427	49,574
Motor vehicle expenses	43,398	43,867
Telephone	28,907	21,649
Stationery and office supplies	20,837	19,611
Bank interest and other charges	19,817	16,339
Other administrative expenses	173,873	144,042
	1,171,852	1,144,044

26. Investment income

	2018 $'000	2017 $'000
Interest income:		
Securities at amortised cost	285,290	225,831
Securities at FVOCI	106,898	215,782
	392,188	441,613
Dividend income	14,256	19,493
	406,444	461,106

27. Taxation

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

	2018 $'000	2017 $'000
Current tax expense:		
Income tax at 33⅓%	166,810	247,131
Deferred tax expense:		
Origination and reversal of other temporary differences (note 21)	(15,773)	8,751
Total taxation expense in profit or loss	151,037	255,882

(b) Reconciliation of effective tax rate:

	2018 $'000	2017 $'000
Profit before taxation	416,960	897,150
Computed "expected" tax expense at 33⅓%	138,987	299,050
Difference between profit for financial statements and tax reporting purposes on:		
Depreciation charge and capital allowances	(495)	(77)
Items not allowed for tax purposes	29,491	25,973
Tax exempt income	(6,550)	(70,137)
Unrealised capital foreign exchange gain	(664)	10,805
Preference dividends	(9,732)	(9,732)
Actual tax expense	151,037	255,882

28. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

(a) Overview:

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

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

Liability insurance
Property insurance
Motor insurance

28. Insurance risk management (cont'd)

(a) Overview (cont'd):

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

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

Underwriting strategy:

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

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

Reinsurance strategy:

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

Ceded reinsurance includes credit risk, and the company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The board of directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is addressed in more detail in note 29(a).

(b) Terms and conditions of general insurance contracts:

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

Type 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 and environmental injury.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. The majority of bodily injury claims have a relatively short tail and are settled in full within four years. In general, these contracts involve greater estimation uncertainty.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

28. Insurance risk management (cont'd)

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

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

(c) Risk exposure and concentrations of risk:

Liability contracts:

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

28. Insurance risk management (cont'd)

(c) Risk exposure and concentrations of risk (cont'd):

Property contracts:

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

Motor contracts:

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

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

	2018					
	Liability	Property	Motor	Engineering/ CAR	Accident	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross	524,283	166,133	3,670,308	30,244	87,762	4,478,730
Net of reinsurance	491,368	10,418	3,306,163	2,326	62,899	3,873,174

	2017					
	Liability	Property	Motor	Engineering/ CAR	Accident	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross	461,604	169,383	3,193,491	62,694	80,085	3,967,257
Net of reinsurance	421,718	12,724	2,915,248	3,895	57,800	3,411,385

(d) Claims development:

Claims development information is disclosed in order to illustrate the insurance risk inherent in the company. The top part of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

28. Insurance risk management (cont'd)

(d) Claims development (cont'd):

Analysis of net claims development

	Accident year						
	2013	2014	2015	2016	2017	2018	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of cumulative claims at end of accident year	2,034,211	1,003,974	1,331,348	1,905,84	2,004,142	2,315,137	
-one year later	2,092,129	992,007	1,246,675	1,839,139	2,076,785	-	
-two years later	2,057,798	963,782	1,232,479	1,832,918	-	-	
-three years later	2,015,398	964,857	1,213,870	-	-	-	
-four years later	2,107,032	963,905	-	-	-	-	
-five years later	2,030,544	-	-	-	-	-	
Estimate of cumulative claims	2,030,544	963,905	1,213,870	1,832,918	2,076,785	2,315,137	10,433,159
Cumulative payments to date	(1,438,069)	(734,530)	(877,437)	(1,332,860)	(1,353,033)	(824,056)	(6,559,985)
Net outstanding claims liabilities	592,475	229,375	336,433	500,058	723,752	1,491,081	3,873,174

29. Financial risk management

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

Credit risk
Liquidity risk
Market risk

Risk management framework:

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

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

29. Financial risk management (cont'd)

Risk management framework (cont'd):

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

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

(a) Credit risk

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

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

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

(i) Management of credit risk

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

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

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

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

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

Exposure to credit risk

	2018					
	AA $'000	A $'000	B $'000	D $'000	Not rated $'000	Total $'000
Financial assets:						
Carrying amount	-	-	8,035,215	70,088	565,737	8,671,040
Reinsurance assets (excluding unearned premiums):						
Neither past due nor impaired	211,945	393,611	-	-	-	605,556
Insurance and other receivables:						
Neither past due nor impaired	-	-	-	-	702,318	702,318
Past due but not impaired	-	-	-	-	553,165	553,165
Individually impaired	-	-	-	-	168,708	168,708
Gross amount	-	-	-	-	1,424,191	1,424,191
Allowance for specific impairment	-	-	-	-	(168,708)	(168,708)
Carrying amount [note 29(a)(iii)]	-	-	-	-	1,255,483	1,255,483
Due from related company:						
Neither past due nor impaired	-	-	-	-	66,219	66,219

	2017			
	AA $'000	A $'000	Not rated $'000	Total $'000
Financial assets:				
Carrying amount	-	-	8,016,173	8,016,173
Reinsurance assets (excluding unearned premiums):				
Neither past due nor impaired	138,968	416,904	-	555,872
Insurance and other receivables:				
Neither past due nor impaired	-	-	534,755	534,755
Past due but not impaired	-	-	362,736	362,736
Individually impaired	-	-	115,248	115,248
Gross amount	-	-	1,012,739	1,012,739
Allowance for specific impairment	-	-	(115,248)	(115,248)
Carrying amount [note 29(a)(iii)]	-	-	897,491	897,491
Due from related company:				
Neither past due nor impaired	-	-	67,243	67,243

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

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

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

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

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

The specific concentration of risk from counterparties where receivables for any one counterparty or group of connected counterparties is $10 million or more at the year end is as follows:

	2018	2017
	$'000	$'000
Allied Insurance Brokers Limited	46,719	27,400
Assurance Brokers Limited	58,923	29,837
CGM Gallagher Insurance Brokers Jamaica Limited	62,343	85,457
Covenant Insurance Brokers Limited	21,692	23,748
Crichton's Insurance Agency Limited	-	25,819
Fraser, Fontaine and Kong Insurance Brokers Limited	31,434	59,026
Jamaica Cooperative Insurance Agency	25,278	24,783
National Property and General Insurance Brokers Limited	-	15,201
JMMB	15,830	18,186
Citadel	36,007	16,572
Orion	22,885	3,930
Chancellor	13,583	7,619
	334,694	337,578

(iii) Aged analysis

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

	2018				
	0 to 45 days	46 to 60 days	61-90 days	More than 90 days	Total
	$'000	$'000	$'000	$'000	$'000
Receivable arising from insurance agents and brokers	123,852	75,821	118,285	304,925	622,883
Insurance premium financing	291,445	-	-	222,842	514,287
Other receivables	287,021	-	-	-	287,021
Less: Allowance for impairment	-	-	-	(168,708)	(168,708)
Carrying amount [Note 29 (a)(i)]	702,318	75,821	118,285	359,059	1,255,483

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Aged analysis (cont'd)

	2017				
	0 to 45 days	46 to 60 days	61-90 days	More than 90 days	Total
	$'000	$'000	$'000	$'000	$'000
Receivable arising from insurance agents and brokers	55,880	55,735	108,587	292,686	512,888
Insurance premium financing	258,868	-	-	20,976	279,844
Other receivables	220,007	-	-	-	220,007
Less: Allowance for impairment	-	-	-	(115,248)	(115,248)
Carrying amount [Note 29(a)(i)]	534,755	55,735	108,587	198,414	897,491

(iv) Assets that are individually impaired

The analysis of overall credit risk exposure indicates that the company has insurance and other receivables that are impaired at the reporting date. The assets that are individually impaired aggregating $168,708,000 (2017: $115,248,000) have been assessed after considering information such as historical payment patterns. The allowance for impairment for individually impaired premiums receivable is calculated net of commission and reinsurance.

(iv) Investments in debt securities:

The company limits its exposure to credit risk associated with investment securities by investing mainly in liquid securities with counterparties that have high credit quality and Government of Jamaica securities.

Credit quality

The company identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the company supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

12-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(v) Investments in debt securities (cont'd):

Credit quality (cont'd)

The following table sets out the credit quality of debt investment securities based on Standard and Poor's and Moody's ratings as follows:

	2018 (12 month ECL)				2017
	Stage 1	Stage 2	Stage 3	Total	
	$'000	$'000	$'000	$'000	$'000
Debt investment securities at FVOCI and amortised cost (2017: available-for-sale)					
B3	6,827,178	-	-	6,827,178	4,417,124
D	71,258	-	-	71,258	139,624
Total gross carrying amount	6,898,436	-	-	6,898,436	4,556,748
Loss allowance					
B3	(16,492)	-	-	(16,492)	(21,660)
D	(1,170)	-	-	(1,170)	(2,457)
	6,880,774	-	-	6,880,774	4,532,631

(vi) Cash and cash equivalents

Cash and cash equivalents are held with banks and other financial institutions counterparties with 1 ratings.

Impairment has been measured at 12- month expected loss basis and reflects the short maturities of the exposures. The company considered that cash resources have low credit risk. No material impairment allowances was recognised on initial adoption of IFRS 9 and there was no change during the period.

Impairment

Inputs, assumptions and techniques used for estimating impairments.

See accounting policy at note 6.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and third party policies including forward-looking information.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(vi) Cash and cash equivalents (cont'd)

Impairment (cont'd)

Significant increase in credit risk (cont'd)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The company uses two criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD; and
- qualitative indicators.

Determining whether credit risk has been increased significantly:

The company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security decreased from grade 1 to grade 3 and the risk grade of loans have moved from grade 1 (standards) to grade 3 (sub-standard).

As a backstop, the company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Inputs, assumptions and techniques used for estimating impairments.

Significant increase in credit risk (cont'd)

Determining whether credit risk has been increased significantly (cont'd):

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the company determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default:

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the company.

In assessing whether a borrower is in default, the company considers indicators that are:

- qualitative: e.g. indicators of financial distress;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Impairment (cont'd)

Significant increase in credit risk (cont'd)

Incorporation of forward-looking information

The definition of default largely aligns with that applied by the company for regulatory capital purposes.

The company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

For 2018, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic factors a proxy of 1.1 times ECL was determined to be appropriate.

The economic scenarios used as at December 31, 2018 assumed no significant changes in key indicators within the next year.

Measurement of ECL

The key inputs into the measurement of ECL are of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. They are calculated on a discounted cash flow basis using the effective interest rate.

LGD is the magnitude of the likely loss if there is a default. The company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are based on published reports of the major rating agencies Moody's and Standard and Poor's.

EAD represents the expected exposure in the event of a default. The company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Impairment (cont'd)

Inputs, assumptions and techniques used for estimating impairments.

Measurement of ECL

As described above, and subject to using a maximum of a 12 month PD for stage 1 financial assets, the company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risks, even if, for credit note management purposes, the company considers a longer period.

Loss allowance

The loss allowance recognised is analysed as follow:

	2018		
	Resale agreements $'000	Investment $'000	Total $'000
Remeasurement on January 1, 2018 (IFRS 9)	8,498	15,619	24,117
Recognised during the period	1,296	(3,313)	(2,017)
Balance at December 31, 2018	9,794	12,306	22,100

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure to the company at December 31, 2018 and December 31, 2017, without taking account of any credit enhancements, is as follows:

(1) Credit risk exposures relating to financial assets represent the amounts carried on the statement of financial position.

29. Financial risk management (cont'd)

(a) Credit risk (cont'd)

Credit exposure

Investment securities

The following table summarises the company's credit exposure for investment securities at their carrying amounts, as categorised by issuer (see notes 10, 15 & 16):

	2018 $'000	2017 $'000
Corporate bonds	1,083,244	336,857
Government of Jamaica Securities	2,333,743	2,608,041
Other financial institutions	3,480,469	3,300,949
	6,898,456	6,245,847
Less allowance	(17,662)	-
	6,880,794	6,245,847

Collateral and other credit enhancements held against financial assets

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of different types of collateral.

Collateral generally is not held over balances with banks or brokers/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held as at December 31, 2018 and December 31, 2017.

Management monitors the market value of collateral held during review of the adequacy of the provision for credit losses and requests additional collateral as necessary.

(b) Liquidity risk

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

29. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently, the company invests in marketable securities that can be readily realised as its obligations under insurance contracts fall due and in the event of reasonably foreseeable abnormal circumstances. The company also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The company is subject to a liquidity limit imposed by the Financial Services Commission (FSC). The key measure used for assessing liquidity risk is the liquid assets (as defined) to total liabilities ratio. The liquid assets to total liabilities ratio at the end of the year is 96% (2017: 102%). The FSC standard liquid assets to total liabilities ratio is 95%.

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

	2018					
		Contractual undiscounted cash flows				
	Carrying Amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5-10 years $'000
Financial liabilities:						
Bank overdraft	7,618	7,618	7,618	-	-	-
Insurance and other payable	1,334,514	1,334,514	1,334,514	-	-	-
Due to related companies	36	36	36	-	-	-
Total financial liabilities	1,342,168	1,342,168	1,342,168	-	-	-
Insurance contract liabilities:						
Claims liabilities	4,478,730	4,478,730	2,512,678	584,978	674,183	706,891
	5,820,898	5,820,898	3,854,846	584,978	674,183	706,891

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

29. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

	2017					
	Contractual undiscounted cash flows					
	Carrying Amount	Total cash outflow	Less than 1 year	1-2 years	2-5 years	5-10 years
	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:						
Bank overdraft	7,951	7,951	7,951	-	-	-
Insurance and other payable	1,081,633	1,081,633	1,081,633	-	-	-
Due to related companies	16,249	16,249	16,249	-	-	-
Total financial liabilities	1,105,833	1,105,833	1,105,833	-	-	-
Insurance contract liabilities:						
Claims liabilities	3,967,257	3,967,257	2,015,565	583,015	621,048	747,629
	5,073,090	5,073,090	3,121,398	583,015	621,048	747,629

(c) Market risk

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

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

Management of market risk

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

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Interest rate risk

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

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

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

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

	Carrying amount	
	2018	2017
	$'000	$'000
Fixed rate instruments		
Financial assets	5,279,360	5,181,466
Variable rate instruments		
Financial assets	733,235	725,520

Fair value sensitivity analysis for fixed rate instruments

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

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

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Interest rate risk (cont'd)

Sensitivity	Effect on Equity Increase	Effect on Equity Decrease	Increase $'000	Decrease $'000
		2018		
Fixed rate instruments – J$	1%	1%	16,757	(37,024)
– US$	1%	1%	80,524	(90,938)
		2017		
Fixed rate instruments – J$	1%	1%	9,048	(16,761)
– US$	0.5%	0.5%	27,117	(180,975)

Cash flow sensitivity analysis for variable rate instruments

A 1% (2017: 1%) increase and a 1% (2017: 1%) decrease in interest rates at the reporting date would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	Effect on profit or loss Increase $'000	Effect on profit or loss Decrease $'000
	2018	
Variable rate instruments – J$	7,332	7,332
	2017	
Variable rate instruments – J$	7,255	(7,255)

(ii) Currency risk

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

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

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

(ii) Currency risk (cont'd)

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

	2018		2017	
Foreign currency assets:	US$'000	BD$'000	US$'000	BD$'000
Investments	9,747	250	9,217	250
Premium receivable	(55)	1,812	2,282	244
Cash and cash equivalents	248	1,778	1,241	705
Interest receivable	157	-	183	-
	10,097	3,840	12,923	1,199
Foreign currency liabilities:				
Accounts payable	40	90	40	90
Commission payable	123	256	150	-
Due to reinsurer	423	581	955	230
	586	927	1,145	320
Net foreign currency assets	9,511	2,913	11,778	879

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

US Dollar:

At December 31, 2018: $126.80
At December 31, 2017: $123.61

Barbados Dollar:

At December 31, 2018: $63.42
At December 31, 2017: $62.03

Sensitivity analysis

A 2% (2017: 2%) strengthening of the Jamaica dollar against the United States dollar at December 31, would have decreased the profit before tax for the year by $24 million (2017: $29 million).

A 4% (2017: 4%) weakening of the Jamaica dollar against the United States dollar at December 31, would have increased the profit before tax for the year by $49 million (2017: $58 million).

29. Financial risk management (cont'd)

(c) Market risk (cont'd)

(iii) Equity price risk

Equity price risk arises from fair value through profit or loss and equity securities held by the company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the company's investment strategy is to maximise investment returns.

A 10% (2017: 15%) increase or decrease in the bid price at the reporting date would cause an increase or an equal decrease respectively in equity of $9 million (2017: $34 million).

30. Operational risk

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

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

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

31. Capital risk management

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

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

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

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

31. Capital risk management (cont'd)

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

The regulator requires general insurance companies to achieve a minimum Prescribed Capital Ratio of 250% (2017: 250%). At December 31, 2018, the company's capital ratio was 253% (2017: 259%).

32. Fair value of financial instruments

(i) Definition and measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of an asset or liability, where a quoted market price is available, fair value is computed by the company using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data.

The company uses observable data as far as possible. Fair values are categorised into different levels in a three-tier fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

Fair value hierarchy: The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

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

(i) Definition and measurement of fair values (cont'd)

Level 3: Financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The company does not carry any financial instrument at fair value. Where fair value approximates the carrying value of financial instruments due to their short-term nature, no fair value disclosure is made.

The fair value of cash and cash equivalents, resale agreements, insurance and other receivables, insurance and other payables, reinsurance assets and insurance contract provisions are assumed to approximate their carrying values due to their short-term nature and are not disclosed in note 32(iii).

(ii) Valuation techniques and significant unobservable inputs:

The following table shows the valuation technique used in measuring fair value in the Level 1, Level 2 and Level 3 hierarchy, as well as the significant unobservable input used.

Type	Valuation technique	Significant Unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Government of Jamaica securities	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids) • Using this yield, determine price using accepted formula • Apply price to estimate fair value.	Not applicable	Not applicable
Equity securities	• Obtain bid price published in an active market	Not applicable	Not applicable

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2018 and December 31, 2017

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

(iii) Accounting classifications and fair values:

The fair value of financial assets and liabilities, together with the carrying amounts and their classifications shown in the statement of financial position, are as follows:

	2018						
	Carrying amount			Fair value			
	Fair value through other comprehensive income	Fair value through profit and loss	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:							
Investment securities	1,549,996	88,599	1,638,595	88,599	1,549,101	895	1,638,595

	2017					
	Carrying amount		Fair value			
	Available for sale	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value:						
Investments securities	1,531,491	1,531,491	224,670	1,305,926	895	1,531,491

33. Dividends declared

Preference dividends are paid gross and are treated as a charge before taxation in accordance with the Income Tax Act.

	2018	2017
	$'000	$'000
Ordinary dividends		
145,985,401 at $2.1900 (2017: $1.3700) per share	320,000	200,000
Preference dividends		
72,992,701 at 40 cents (2017: 40 cents) per share	29,197	29,197
	349,197	229,197