

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019



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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 69, which comprise the statement of financial position as at December 31, 2019, 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, 2019, 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.



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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.



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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.

A handwritten signature in blue ink that reads 'KPMG'.

Chartered Accountants
Kingston, Jamaica

March 30, 2020

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

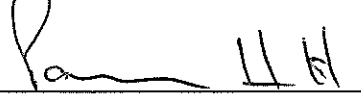
Statement of Financial Position
December 31, 2019 and December 31, 2018

	Notes	2019 \$'000	2018 \$'000
ASSETS			
Property, plant and equipment	7	410,338	141,844
Intangible assets	8	202,220	183,312
Right-of-use asset	9(a)	47,870	-
Investment in associate	10	44,760	31,268
Investments	11	3,777,303	3,029,934
Deferred acquisition costs	12	300,308	214,012
Reinsurance assets	13	2,696,834	2,103,275
Insurance and other receivables	14	1,712,772	1,255,483
Deferred tax asset	22	2,366	6,065
Taxation recoverable		-	206,006
Due from related companies	15	121,458	85,221
Short-term investments	16	1,741,747	2,082,249
Securities purchased under resale agreements	17	2,430,930	1,857,210
Cash and cash equivalents		<u>1,956,934</u>	<u>1,701,647</u>
		<u>15,445,840</u>	<u>12,897,526</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank overdraft, unsecured	18	15,488	7,618
Insurance and other payables	19	1,387,498	1,334,514
Lease liability	9(b)	48,426	-
Employee benefit obligation	20	45,708	37,273
Deferred commission income	21	359,709	288,128
Taxation payable		15,553	-
Insurance contract provisions	13	9,375,633	7,911,884
Due to related companies	15	<u>19,871</u>	<u>36</u>
		<u>11,267,886</u>	<u>9,579,453</u>
Share capital	23	959,200	959,200
Capital reserves	24	264,416	120,476
Investment revaluation reserve		295,194	201,482
Employee benefit reserve		(34,450)	(27,221)
Retained earnings		<u>2,693,594</u>	<u>2,064,136</u>
		<u>4,177,954</u>	<u>3,318,073</u>
		<u>15,445,840</u>	<u>12,897,526</u>

The financial statements, on pages 4 to 69 were approved for issue by the Board of Directors on March 30, 2020, and signed on their behalf by:



Vikram Dhiman Director



Paul Hanworth Director

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, 2019 and December 31, 2018

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
		<u>\$'000</u>	<u>\$'000</u>
Gross premiums written	25,13(b)	11,338,905	8,820,710
Change in gross provision for unearned premiums		(1,142,198)	(991,706)
Gross insurance premium revenue	13(b)	10,196,707	7,829,004
Written premiums ceded to reinsurers	13(b)	(6,395,542)	(5,126,369)
Reinsurers' share of change in provision for unearned premiums		<u>450,727</u>	<u>523,962</u>
Net insurance premium revenue		<u>4,251,892</u>	<u>3,226,597</u>
Gross claims expenses incurred	13(a)	(3,374,575)	(2,758,531)
Reinsurers' share of claims and benefits incurred	13(a)	<u>823,486</u>	<u>503,065</u>
Net insurance claims	13(a)	(2,551,089)	(2,255,466)
Commission expense	12	(594,616)	(465,399)
Commission income	21	<u>801,278</u>	<u>693,814</u>
Net commission income		<u>206,662</u>	<u>228,415</u>
Operating expenses	26(b)	<u>1,907,465</u> (1,447,452)	<u>1,199,546</u> (1,171,852)
Underwriting profit before other expenses, other income and taxation		460,013	27,694
Other expenses		(155,718)	(180,074)
Investment income, net	27	420,357	406,444
Gain on sale of investments		45,666	3,040
Gain on sale of property, plant and equipment		-	85
Gains on securities measured at fair value through profit or loss		60,886	7,612
Other income		218,586	128,493
Lease interest expense	9(c)	(4,304)	-
Foreign exchange gains, net		<u>1,311</u>	<u>23,666</u>
Profit before taxation	26	1,046,797	416,960
Taxation	28	(288,142)	(151,037)
Profit for the year		<u>758,655</u>	<u>265,923</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant & equipment		215,910	-
Tax on revaluation	22	(71,970)	-
Fair value gains on investments		93,712	68,169
Re-measurement (gains)/loss on employee benefit obligation	20	(10,844)	520
Tax on re-measurement loss/(gains) on employee benefit obligation	22	<u>3,615</u>	<u>(173)</u>
Total other comprehensive income		<u>230,423</u>	<u>68,516</u>
Total comprehensive income for the year		<u>989,078</u>	<u>334,439</u>

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, 2019 and December 31, 2018

	Share Capital \$'000 (Note 23)	Capital reserves \$'000 (Note 24)	Investment revaluation reserve \$'000	Employee benefit reserve \$'000	Retained earnings \$'000	Total \$'000
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 2018	-	-	-	-	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 34)	-	-	-	-	(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
Profit for the year 2019	-	-	-	-	758,655	758,655
Other comprehensive income:						
Fair value gains on Investments, net of tax	-	-	90,956	-	-	90,956
Fair value change on investments through other comprehensive income	-	-	2,756	-	-	2,756
Re-measurement loss on employee benefit obligation, net	-	-	-	(7,229)	-	(7,229)
Surplus arising on revaluation of property, plant and equipment, net of tax	-	143,940	-	-	-	143,940
Total comprehensive income	-	143,940	93,712	(7,229)	758,655	989,078
Dividends paid (Note 34)	-	-	-	-	(129,197)	(129,197)
Net change for the year	-	143,940	93,712	(7,229)	629,458	859,881
Balances at December 31, 2019	959,200	264,416	295,194	(34,450)	2,693,594	4,177,954

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Statement of Cash Flows

Years ended December 31, 2019 and December 31, 2018

	<u>Notes</u>	<u>2019</u> \$'000	<u>2018</u> \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		758,655	265,923
Adjustments for:			
Depreciation	7,9(a)	51,605	38,076
Gain on sale of investments		(45,666)	(3,040)
Increase in insurance contract provisions		1,463,749	1,503,179
Amortisation of intangible assets	8	72,400	57,053
Gain on disposal of property, plant and equipment		-	(85)
Employee benefits, (net)	20	(2,409)	(2,320)
Exchange (gain) / loss on investments		(1,311)	(23,666)
Interest income	27	(415,822)	(392,188)
Lease interest expense	9(c)	4,304	-
Taxation	28	<u>288,142</u>	<u>151,037</u>
		2,173,647	1,593,969
Changes in:			
Deferred acquisition costs		(86,296)	(54,683)
Insurance and other receivables		(1,045,021)	(943,645)
Due from related companies		(36,237)	(17,978)
Insurance and other payables		52,984	252,881
Deferred commission income		71,581	87,945
Due to related companies		<u>19,835</u>	<u>(16,213)</u>
		1,150,493	902,276
Interest received		409,995	404,195
Taxation paid		<u>(131,239)</u>	<u>(245,203)</u>
Net cash provided by operating activities		<u>1,429,249</u>	<u>1,061,268</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal		-	85
Short term investments, net		340,502	(7,727)
Securities purchased under resale agreements		(573,720)	(235,885)
Investments, net		(874,736)	(414,881)
Proceeds from sale of investment		268,056	11,795
Acquisition of property, plant and equipment	7	(92,222)	(35,138)
Additions to intangible assets	8	(91,308)	(67,398)
Investment in associate	10	<u>(13,492)</u>	<u>(31,268)</u>
Net cash used by investing activities		<u>(1,036,920)</u>	<u>(780,417)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid,	34	(129,197)	(349,197)
Payment of lease liabilities	9(d)	<u>(15,715)</u>	<u>-</u>
Net cash used by financing activities		<u>(144,912)</u>	<u>(349,197)</u>
Net increase/(decrease) in cash and cash equivalents		247,417	(68,346)
Cash and cash equivalents at beginning of the year		<u>1,694,029</u>	<u>1,762,375</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>1,941,446</u>	<u>1,694,029</u>
Comprised of:			
Cash and bank balances		1,010,369	565,737
Short-term investments		<u>946,565</u>	<u>1,135,910</u>
		1,956,934	1,701,647
Less: Bank overdraft, unsecured	18	<u>(15,488)</u>	<u>(7,618)</u>
		<u>1,941,446</u>	<u>1,694,029</u>

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements

Years ended December 31, 2019 and December 31, 2018

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 on August 23, 2016 and commenced operation of the branch effective July 10, 2017. On February 9, 2018, the company obtained license from the Financial Services Commission of Turks and Caicos Islands and commenced operation of the branch, January 1, 2019.

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. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and their interpretations issued by the International Accounting Standards Board, and comply with the provisions of the Jamaican Companies Act ("the Act").

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

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

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

New and amended standards that came into effect during the current financial year:

Certain new and amended standards that were in issue came into effect during the current financial year. This is the first set of the company's annual financial statements in which IFRS 16, *Leases* has been applied from January 1, 2019. A number of other new standards and interpretations are also effective January 1, 2019 but they do not have a material effect on the company's financial statements. Changes to significant accounting policies are described in note 5.

New and amended standards and interpretations not yet effective:

At the date of approval of the financial statements, there were certain new and amended standards and interpretations to existing standards, which were in issue, but were not yet effective and had not been early adopted by the company. Those which management considered may be relevant to the company are as follows:

- 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)
- 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;

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

4. Statement of compliance and 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)
 - 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.

- Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020 and provides the following definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

(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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

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

(b) Basis of preparation (cont'd):

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.

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:

(1) Classification of financial assets:

The assessment of the business model within which assets are held and assessment of whether the contractual terms of a 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 the 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

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

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

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

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 33].

(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 13 and 29 contain information about the assumptions and uncertainties relating to insurance liabilities and discloses the risk factors in these contracts. Note 30 contains information about the risks and uncertainties associated with financial instruments.

5. Changes in accounting policies

The company has initially adopted IFRS 16 Leases from January 1, 2019. A number of other new standards were also effective from January 1, 2019 but they do not have a material effect on the company's financial statements.

The company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

5. Changes in accounting policies (cont'd)

(a) IFRS 16, *Leases*

Definition of a lease

Previously, the company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The company now assesses whether a contract is or contains a lease based on the definition of a lease under IFRS 16.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the company leases many assets, including property. The company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company. Under IFRS 16, the company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

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

However, for leases of property, the company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at January 1, 2019.

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the company's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the company applied this approach.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

5. Changes in accounting policies (cont'd)

(a) IFRS 16, *Leases (cont'd)*

Leases classified as operating leases under IAS 17 (cont'd)

The company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on transition

On transition to IFRS 16, the company recognised right-of-use assets and lease liabilities. In measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted- average rate applied is 9%. The impact on transition is summarised below.

	January 2019 \$'000
Right-of-use assets – property, plant and equipment	59,837
Lease liabilities	<u>(59,837)</u>
Retained earnings	<u>–</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies

Except for the changes noted in note 5, the company has consistently applied the accounting policies as set out in note 6 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

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

Any revaluation increase arising on the revaluation of freehold land and buildings is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in capital reserve relating to a previous revaluation of that asset.

Leasehold improvements, furniture, fixtures and equipment and motor vehicles are measured at cost less accumulated depreciation and any impairment losses.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss.

(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	3 1/3%
Furniture, fixture and equipment	10%
Motor vehicles	33 1/3%
Computer equipment	33 1/3%
Leasehold improvements	10%
Right of use asset	20%

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(g) Intangible assets and amortisation (cont'd):

(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.

(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:

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'.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

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

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'.

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:

- 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

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

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;

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering the full amount or a portion of financial asset. 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.

(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.

(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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(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.

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 and deferred commission income

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

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

(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 29). 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.

(l) Revenue:

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

Revenue comprises the following:

(i) Gross written premiums

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(l) Revenue (cont'd):

(iii) Interest:

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.

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.

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 or are 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(l) Revenue (cont'd):

(iii) Interest (cont'd):

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.

(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 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.

(n) Leases:

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 5.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(n) Leases (cont'd):

Policy applicable from January 1, 2019

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

- the contract involves the use of an identified asset – This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the company has the right to direct the use of the asset. The company has this right when it has the decision/making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the company has the right to direct the use of the asset if either:
 - the company has the right to operate the asset; or
 - the company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the company has elected not to separate non-lease components on account for the lease and non-lease components as a single lease component.

As a lessee

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(n) Leases (cont'd)

Policy applicable from January 1, 2019 (cont'd)

As a lessee (cont'd)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate.

Generally, the entity uses its incremental borrowing rate as the discount rate.

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

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

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

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

The company presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in loans and borrowings in the statement of financial position.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(n) Leases (cont'd)

Short-term leases and leases of low-value assets

For short term leases and leases of low-value assets, the entity has elected not to recognise right-of-use assets and lease liabilities for short term leases of assets that have a lease term of 12 months or less and lease of low-value assets. The entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessee

Policy applicable before January 1, 2019

In the comparative period, assets held under lease were classified as operating leases and were not recognised in the company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(o) 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(o) Employee benefits (cont'd):

(ii) Other post-retirement benefits (cont'd)

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

(p) 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

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).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(p) Financial instruments (cont'd):

(ii) Classification and subsequent measurement (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 achieved 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

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(p) Financial instruments (cont'd):

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

Financial assets – Business model assessment (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.

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.

- 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(p) Financial instruments (cont'd):

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

Reclassification

- 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.

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.

(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.

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

6. Significant accounting policies (cont'd)

(p) Financial instruments (cont'd):

(iv) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) Dividends:

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

7. Property, plant and equipment

	Freehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation:					
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
Additions	50,039	1,619	40,282	282	92,222
Revaluation	<u>127,942</u>	-	-	-	<u>127,942</u>
December 31, 2019	<u>322,000</u>	<u>38,904</u>	<u>297,476</u>	<u>1,976</u>	<u>660,356</u>
Accumulated depreciation:					
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
Charge for the year	6,147	3,874	29,501	116	39,638
Revaluation	<u>(87,968)</u>	-	-	-	<u>(87,968)</u>
December 31, 2019	<u>4,430</u>	<u>17,229</u>	<u>226,617</u>	<u>1,742</u>	<u>250,018</u>
Net book values					
December 31, 2019	<u>317,570</u>	<u>21,675</u>	<u>70,859</u>	<u>234</u>	<u>410,338</u>
December 31, 2018	<u>57,768</u>	<u>23,930</u>	<u>60,078</u>	<u>68</u>	<u>141,844</u>

At July 1, 2019, the company's freehold land and buildings were valued at open market value by independent valuers Breakenridge & Associates, Chartered Valuation Surveyors. The surplus on revaluation is included in capital reserves. Freehold land and buildings include freehold land at a cost of \$22,459,000 (2018: \$22,459,000).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

8. Intangible assets

	Computer software \$'000	Customer loyalty \$'000	Goodwill \$'000	Total \$'000
Cost:				
December 31, 2017	173,577	25,600	54,944	254,121
Additions	<u>67,398</u>	<u>-</u>	<u>-</u>	<u>67,398</u>
December 31, 2018	240,975	25,600	54,944	321,519
Additions	<u>91,308</u>	<u>-</u>	<u>-</u>	<u>91,308</u>
December 31, 2019	<u>332,283</u>	<u>25,600</u>	<u>54,944</u>	<u>412,827</u>
Amortisation:				
December 31, 2017	81,154	-	-	81,154
Charge for the year	<u>57,053</u>	<u>-</u>	<u>-</u>	<u>57,053</u>
December 31, 2018	138,207	-	-	138,207
Charge for the year	<u>72,400</u>	<u>-</u>	<u>-</u>	<u>72,400</u>
December 31, 2019	<u>210,607</u>	<u>-</u>	<u>-</u>	<u>210,607</u>
Net book values:				
December 31, 2019	<u>121,676</u>	<u>25,600</u>	<u>54,944</u>	<u>202,220</u>
December 31, 2018	<u>102,768</u>	<u>25,600</u>	<u>54,944</u>	<u>183,312</u>
December 31, 2017	<u>92,423</u>	<u>25,600</u>	<u>54,944</u>	<u>172,967</u>

9. Leases

The company leases property for its branches. Previously, the leases were classified as operating leases under IAS 17. The annual discount rate being applied is 9% and 7.75% for leases in Jamaica and Barbados respectively.

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

(a)	Right-of-use asset	<u>2019</u> \$'000
	Balance at January 1	59,837
	Depreciation charge for the year	<u>(11,967)</u>
	Balance as at December 31	<u>47,870</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

9. Leases (cont'd)

(b)	Lease liability	<u>2019</u> <u>\$'000</u>
	Maturity analysis – contractual undiscounted cash flows:	
	Less than one year	13,300
	One to five years	<u>46,562</u>
	Total undiscounted lease liability at 31 December	<u>59,862</u>
	Lease liability included in the statement of financial position at 31 December	
	Current	34,413
	Non-current	<u>14,013</u>
		<u>48,426</u>
(c)	Amount recognised in profit or loss	<u>2019</u> <u>\$'000</u>
	Interest on lease liability	<u>4,304</u>
(d)	Amount recognised in the statement of cash flows	<u>2019</u> <u>\$'000</u>
	Total cash outflow for lease	<u>15,715</u>

Extension options

The lease value determined above includes a lease with an option to renew. This option is exercisable by the company up to six months before the end of the non-cancellable contract period. The company assesses at the lease commencement date, whether it is reasonably certain to exercise the extension options. The company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

10. Investment in associate

The company has a shareholding of 45% (2018: 45%) in Statera Underwriting Management Limited, which provides insurance management services in Turks and Caicos Islands.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

11. Investments

	2019			
	Fair value through other comprehensive income	Amortised cost	Fair value through Profit and loss	Total
	\$'000	\$'000	\$'000	\$'000
Government of Jamaica securities – US\$ Bonds	1,233,271	-	-	1,233,271
Quoted shares	-	-	267,681	267,681
Other securities	156,249	-	-	156,249
Government of Jamaica securities – J\$ Bonds	289,033	543,887	-	832,920
Corporate bonds – US\$ and J\$	-	1,218,915	-	1,218,915
Term deposit – BD\$ and US\$	-	81,212	-	81,212
	1,678,553	1,844,014	267,681	3,790,248
Less impairment allowance	-	(12,945)	-	(12,945)
	<u>1,678,553</u>	<u>1,831,069</u>	<u>267,681</u>	<u>3,777,303</u>
	2018			
	Fair value through other comprehensive income	Amortised cost	Fair value through Profit and loss	Total
	\$'000	\$'000	\$'000	\$'000
Government of Jamaica securities – US\$ Bonds	1,158,735	-	-	1,158,735
Quoted shares	-	-	88,599	88,599
Other securities	96,860	-	-	96,860
Government of Jamaica securities – J\$ Bonds	278,071	696,427	-	974,498
Corporate bonds – US\$ and J\$	-	701,257	-	701,257
Term deposit – BD\$ and US\$	-	15,855	-	15,855
	1,533,666	1,413,539	88,599	3,035,804
Less impairment allowance	-	(5,870)	-	(5,870)
	<u>1,533,666</u>	<u>1,407,669</u>	<u>88,599</u>	<u>3,029,934</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

11. Investments (cont'd)

Investments include foreign currency investments aggregating US\$9,989,500 (2018: US\$10,049,000). 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 term deposits of BD\$250,000 and US\$500,000 were held to the order of the Financial Services Commission in Barbados and Turks and Caicos Islands respectively.

12. Deferred acquisition costs

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

	<u>2019</u> \$'000	<u>2018</u> \$'000
Balance January 1	214,012	159,329
Commission paid during the year	680,912	520,082
Amounts recognised in income during the year	<u>(594,616)</u>	<u>(465,399)</u>
Balance December 31	<u>300,308</u>	<u>214,012</u>

13. Reinsurance assets and insurance contract provisions

Analysis of movements in reinsurance assets and insurance contract provisions:

	<u>2019</u>			<u>2018</u>		
	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000
Claims outstanding	4,800,281	748,388	4,051,893	4,478,730	605,556	3,873,174
Unearned premiums	<u>4,575,352</u>	<u>1,948,446</u>	<u>2,626,906</u>	<u>3,433,154</u>	<u>1,497,719</u>	<u>1,935,435</u>
	<u>9,375,633</u>	<u>2,696,834</u>	<u>6,678,799</u>	<u>7,911,884</u>	<u>2,103,275</u>	<u>5,808,609</u>

(a) Claims outstanding:

	<u>2019</u>			<u>2018</u>		
	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000	<u>Gross</u> \$'000	<u>Reinsurance</u> \$'000	<u>Net</u> \$'000
Claims notified	3,847,717	432,182	3,415,535	3,404,358	344,226	3,060,132
Claims incurred but not reported	<u>631,013</u>	<u>173,374</u>	<u>457,639</u>	<u>562,899</u>	<u>211,646</u>	<u>351,253</u>
Balance at January 1	<u>4,478,730</u>	<u>605,556</u>	<u>3,873,174</u>	<u>3,967,257</u>	<u>555,872</u>	<u>3,411,385</u>
Claim expenses incurred	3,374,575	823,486	2,551,089	2,758,531	503,065	2,255,466
Claims paid in year	<u>(3,053,024)</u>	<u>(680,654)</u>	<u>(2,372,370)</u>	<u>(2,247,058)</u>	<u>(453,381)</u>	<u>(1,793,677)</u>
Change in outstanding claims provision	<u>321,551</u>	<u>142,832</u>	<u>178,719</u>	<u>511,473</u>	<u>49,684</u>	<u>461,789</u>
Balance at December 31	<u>4,800,281</u>	<u>748,388</u>	<u>4,051,893</u>	<u>4,478,730</u>	<u>605,556</u>	<u>3,873,174</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

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

(a) Claims outstanding (cont'd):

	2019			2018		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Analysis:						
Claims notified	4,329,386	509,540	3,819,846	3,847,717	432,182	3,415,535
Claims incurred but not reported	<u>470,895</u>	<u>238,848</u>	<u>232,047</u>	<u>631,013</u>	<u>173,374</u>	<u>457,639</u>
Balance December 31	<u>4,800,281</u>	<u>748,388</u>	<u>4,051,893</u>	<u>4,478,730</u>	<u>605,556</u>	<u>3,873,174</u>

Outstanding claims include claims payable to related parties of \$23,320,000 (2018: \$32,540,000).

(b) Unearned premiums:

	2019			2018		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance January 1	3,433,154	1,497,719	1,935,435	2,441,448	973,757	1,467,691
Premiums written during the year	11,338,905	6,395,542	4,943,363	8,820,710	5,126,369	3,694,341
Premiums earned during the year	<u>(10,196,707)</u>	<u>(5,944,815)</u>	<u>(4,251,892)</u>	<u>(7,829,004)</u>	<u>(4,602,407)</u>	<u>(3,226,597)</u>
Balance December 31	<u>4,575,352</u>	<u>1,948,446</u>	<u>2,626,906</u>	<u>3,433,154</u>	<u>1,497,719</u>	<u>1,935,435</u>

(c) Gross unearned premiums are analysed as follows:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Motor	2,582,124	1,874,934
Property	1,349,259	1,105,552
Pecuniary loss	150,897	281,536
Loss liability	88,248	73,974
Engineering	<u>404,824</u>	<u>97,158</u>
	<u>4,575,352</u>	<u>3,433,154</u>

(d) Insurance contract provisions include an estimate of \$117,648,000 (2018: \$112,436,000) in respect of unallocated loss adjustment expense.

Process used to determine the assumptions for measuring provisions for 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 claims reserves may be insufficient to meet insurance claim liabilities reported in future years on post policy periods.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

13. 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 to protect against adverse results and catastrophes. 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 assets is considered separately.

14. Insurance and other receivables

	<u>2019</u>	<u>2018</u>
	\$'000	\$'000
Premiums receivable	700,828	484,877
Insurance premium financing	763,471	483,585
Prepaid expenses	29,570	11,114
Accrued investment income	118,691	112,865
Other receivables	<u>100,212</u>	<u>163,042</u>
	<u>1,712,772</u>	<u>1,255,483</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITEDNotes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 201814. Insurance and other receivables (cont'd)

	<u>2019</u> \$'000	<u>2018</u> \$'000
Gross premium receivable	812,868	622,883
Less allowance for impairment	(112,040)	(138,006)
	<u>700,828</u>	<u>484,877</u>
Insurance premium financing	816,532	514,287
Less allowance for impairment	(53,061)	(30,702)
	<u>763,471</u>	<u>483,585</u>

Information relating to credit risk management and the maturity profile of insurance receivables is outlined in more detail in note 30(a).

Movement on allowance for impairment of insurance receivables is as follows:

	<u>2019</u> \$'000	<u>2018</u> \$'000
At January 1	168,708	115,248
(Decrease)/increase in allowance for impairment of receivables	(3,607)	<u>53,460</u>
December 31 [see note 30(iii)]	<u>165,101</u>	<u>168,708</u>

15. Due from/to related companies

	<u>2019</u> \$'000	<u>2018</u> \$'000
Due from related companies:		
Gallagher Insurance Brokers Jamaica Limited		
(formerly CGM Gallagher Insurance Brokers Jamaica Limited)	102,282	66,219
Statera Underwriting Managers Limited*	<u>19,176</u>	<u>19,002</u>
	<u>121,458</u>	<u>85,221</u>
Due to parent and other related parties:		
ICD Group Holdings Limited	10,674	36
The Victoria Mutual Building Society	<u>9,197</u>	<u>-</u>
	<u>19,871</u>	<u>36</u>

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 was due June 30, 2019 and then quarterly thereafter. Loan matures November 28, 2021.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

16. Short-term investments

	<u>2019</u>			<u>2018</u>		
	Amortised cost \$'000	Fair value through other comprehensive income \$'000	Total \$'000	Amortised cost \$'000	Fair value through other comprehensive income \$'000	Total \$'000
IAJ debenture	-	895	895	-	895	895
Government of Jamaica securities – J\$ bonds	-	-	-	185,075	15,435	200,510
Other securities	-	-	-	4,900	-	4,900
Certificate of deposits	1,265,974	-	1,265,974	1,495,955	-	1,495,955
Corporate bonds	<u>480,123</u>	<u>-</u>	<u>480,123</u>	<u>381,987</u>	<u>-</u>	<u>381,987</u>
	1,746,097	895	1,746,992	2,067,917	16,330	2,084,247
Less impairment allowance	(5,245)	-	(5,245)	(1,998)	-	(1,998)
	<u>1,740,852</u>	<u>895</u>	<u>1,741,747</u>	<u>2,065,919</u>	<u>16,330</u>	<u>2,082,249</u>

Corporate bonds include investments denominated in foreign currency aggregating US\$551,884 (2018: US\$562,500). Other securities include investments denominated in foreign currency aggregating US\$ Nil (2018: US\$38,000).

17. Securities purchased under resale agreements

	<u>2019</u> \$'000	<u>2018</u> \$'000
Principal	2,439,756	1,867,004
Less impairment allowance	(8,826)	(9,794)
	<u>2,430,930</u>	<u>1,857,210</u>

The fair value of the underlying securities held as collateral amounts to \$2,561,743,000 (2018: \$1,867,271,000).

18. Bank overdraft

This represents the value of unrepresented cheques. The company does not have any bank overdraft facility.

19. Insurance and other payables

	<u>2019</u> \$'000	<u>2018</u> \$'000
Payables arising from insurance and reinsurance contracts due to other insurance companies	665,195	708,570
Commission payable	128,150	97,910
Other payables and accrued charges	<u>594,153</u>	<u>528,034</u>
	<u>1,387,498</u>	<u>1,334,514</u>

Insurance and other payables includes \$55 million (2018: \$22 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, 2019 and December 31, 2018

20. 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:

	<u>2019</u> \$'000	<u>2018</u> \$'000
Balance as at January 1	<u>37,273</u>	<u>40,113</u>
Included in profit or loss:		
Current service costs	(2,193)	(1,997)
Interest costs	<u>(216)</u>	<u>(323)</u>
	<u>(2,409)</u>	<u>(2,320)</u>
Included in other comprehensive income:		
Actuarial (gains)/losses:		
Experience losses	7,638	6,016
Re-measurement gains	<u>3,206</u>	<u>(6,536)</u>
	<u>10,844</u>	<u>(520)</u>
Balance at December 31	<u>45,708</u>	<u>37,273</u>

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

	<u>2019</u> %	<u>2018</u> %
Discount rate at end of year	7.5	7
Future increases in medical premiums	<u>4</u>	<u>3</u>

- (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.

	<u>2019</u>		<u>2018</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>	<u>1% Increase</u>	<u>1% Decrease</u>
	\$'000	\$'000	\$'000	\$'000
Discount rate	(6,137)	<u>7,865</u>	(4,878)	<u>6,230</u>
Assumed medical cost trend	<u>8,078</u>	(6,373)	<u>6,435</u>	(5,089)

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

20. Employee benefit obligation (cont'd)

(v) Liability duration

The average liability duration are as follows:

	<u>2019</u>	<u>2018</u>
Active members and all participants (years)	<u>49.2</u>	<u>51.5</u>

21. Deferred commission income

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

	<u>2019</u> \$'000	<u>2018</u> \$'000
Balance January 1	288,128	200,183
Commission received during the year	872,859	781,759
Amounts recognised in income during the year	<u>(801,278)</u>	<u>(693,814)</u>
Balance December 31	<u>359,709</u>	<u>288,128</u>

22. Deferred tax (liability)/asset

Deferred tax (liability)/asset is attributable to the following:

	December 31, <u>2017</u> \$'000	Recognised in <u>income</u> \$'000 [note 28(a)]	Recognised in <u>equity</u> \$'000	December 31, <u>2018</u> \$'000	Recognised in <u>income</u> \$'000 [note 28(a)]	Recognised in <u>equity</u> \$'000	December 31, <u>2019</u> \$'000
Property, plant and equipment	12,295	12,335	-	24,630	66,102	-	90,732
Gain on exchange	(316)	(2,673)	-	(2,989)	(516)	-	(3,505)
Accounts payable	5,596	509	-	6,105	-	-	6,105
Employee benefits	13,371	(774)	(173)	12,424	(796)	3,615	15,243
Accrued investment income	(40,481)	6,376	-	(34,105)	(320)	-	(34,425)
Revaluation of property, plant and equipment	-	-	-	-	-	(71,970)	(71,970)
Leases, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186</u>	<u>-</u>	<u>186</u>
	<u>(9,535)</u>	<u>15,773</u>	<u>(173)</u>	<u>6,065</u>	<u>64,656</u>	<u>(68,355)</u>	<u>2,366</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

23. Share capital

	<u>2019</u> \$'000	<u>2018</u> \$'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	<u>174,621</u>	<u>174,621</u>
	<u>959,200</u>	<u>959,200</u>

24. Capital reserves

	<u>2019</u> \$'000	<u>2018</u> \$'000
Realised gains (i)	27,541	27,541
Revaluation reserve (i)	308,845	92,935
Deferred tax on revaluation of property, plant & equipment	(71,970)	-
	<u>264,416</u>	<u>120,476</u>

(i) This comprises realised gains on disposal of investments and unrealised gains on revaluation. During the year, freehold land and buildings were revalued and the gains on revaluation recognised in revaluation reserve (see note 7).

(ii) Realised capital reserves are available for distribution to shareholders, subject to transfer tax at 2% (2018: 5%).

25. Gross premiums written

Gross premiums written include \$145,573,354 (2018: \$112,028,000) arising from transactions with related parties.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

26. Disclosure of expenses

Profit before taxation is stated after charging:

(a) Related party transactions:

	<u>2019</u>	<u>2018</u>
	\$'000	\$'000
Transactions with fellow subsidiaries:		
Commission expense	<u>83,481</u>	<u>74,236</u>
Transactions with ultimate parent company:		
Management fees:		
- Parent company	98,348	98,348
- Non-controlling shareholder	<u>37,363</u>	<u>34,489</u>
	<u>135,711</u>	<u>132,837</u>
Compensation of key management personnel is as follows:		
Short term employment benefits		
Salary	144,670	96,418
Pension contributions [see note 6(o)]	<u>11,482</u>	<u>11,186</u>
	<u>156,152</u>	<u>107,604</u>

(b) Operating expenses:

	<u>2019</u>	<u>2018</u>
	\$'000	\$'000
Depreciation – property, plant and equipment	39,638	38,076
Depreciation – right of use asset	11,967	-
Amortisation – intangible assets	72,400	57,053
Directors' emoluments		
Fees	5,112	5,004
Remuneration	31,725	28,135
Staff costs	826,242	546,587
Pension	(2,409)	(2,320)
Auditors' remuneration	9,800	10,223
Data processing charge and maintenance	73,371	62,272
Advertising and promotion	85,763	77,563
Professional fees	63,365	62,427
Motor vehicle expenses	48,906	43,398
Telephone	34,616	28,907
Stationery and office supplies	24,334	20,837
Bank interest and other charges	38,123	19,817
Other administrative expenses	<u>84,499</u>	<u>173,873</u>
	<u>1,447,452</u>	<u>1,171,852</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITEDNotes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 201827. Investment income

	<u>2019</u> \$'000	<u>2018</u> \$'000
Interest income recognised using the effective interest method:		
Securities at amortised cost	296,289	285,290
Securities at FVOCI	<u>119,533</u>	<u>106,898</u>
	<u>415,822</u>	<u>392,188</u>
Dividend income	<u>4,535</u>	<u>14,256</u>
	<u>420,357</u>	<u>406,444</u>

28. Taxation

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

	<u>2019</u> \$'000	<u>2018</u> \$'000
Current tax expense:		
Income tax at 33 $\frac{1}{3}$ %	<u>352,798</u>	<u>166,810</u>
Deferred tax expense:		
Origination and reversal of other temporary differences (note 22)	<u>(64,656)</u>	<u>(15,773)</u>
Total taxation expense in profit or loss	<u>288,142</u>	<u>151,037</u>
	<u>2019</u> \$'000	<u>2018</u> \$'000

- (b) Reconciliation of effective tax rate:
Profit before taxation

Computed "expected" tax expense at 33 $\frac{1}{3}$ %	348,932	138,987
Difference between profit for financial statements and tax reporting purposes on:		
Depreciation charge and capital allowances	(49,164)	(495)
Items not allowed for tax purposes	5,963	29,491
Tax exempt income	(8,193)	(6,550)
Unrealised capital foreign exchange gain	336	(664)
Preference dividends	<u>(9,732)</u>	<u>(9,732)</u>
Actual tax expense	<u>288,142</u>	<u>151,037</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

29. 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

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 30(a).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

29. Insurance risk management (cont'd)

(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.
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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

29. Insurance risk management (cont'd)

(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.

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.

	2019					
	<u>Liability</u>	<u>Property</u>	<u>Motor</u>	<u>Engineering/ CAR</u>	<u>Accident</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Gross	319,177	391,633	3,956,205	71,417	61,849	4,800,281
Net of reinsurance	<u>287,987</u>	<u>18,808</u>	<u>3,698,936</u>	<u>4,493</u>	<u>41,669</u>	<u>4,051,893</u>

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

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

29. Insurance risk management (cont'd)

(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.

Analysis of net claims development

	Accident year						Total
	2014	2015	2016	2017	2018	2019	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of cumulative claims							
at end of accident year	2,300,491	1,331,348	1,905,847	2,002,142	2,315,137	2,968,051	
-one year later	2,254,193	1,246,675	1,678,719	2,019,380	2,166,122		
-two years later	2,176,463	1,232,479	1,735,627	1,959,306	-		
-three years later	2,220,730	1,213,870	1,721,010	-	-		
-four years later	2,157,743	1,153,973	-	-	-		
-five years later	2,179,144	-	-	-	-		
Estimate of cumulative claims	2,179,144	1,153,973	1,721,010	1,959,306	2,166,122	2,968,051	12,147,606
Cumulative payments to date	(1,513,270)	(930,274)	(1,436,407)	(1,518,967)	(1,466,005)	(1,230,790)	(8,095,713)
Net outstanding claims liabilities	<u>665,874</u>	<u>223,699</u>	<u>284,603</u>	<u>440,339</u>	<u>700,117</u>	<u>1,737,261</u>	<u>4,051,893</u>

30. 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

Risk management framework (cont'd):

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.

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, 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 limiting its exposure to a single counterparty and 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 debt securities.

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, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(a) Credit risk (cont'd)

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

Exposure to credit risk

	2019					Total \$'000
	AA \$'000	A \$'000	B \$'000	D \$'000	Not rated \$'000	
Financial assets:						
Carrying amount	-	-	8,883,463	13,082	1,010,369	9,906,914
Reinsurance assets (excluding unearned premiums):						
Neither past due nor impaired	358,052	377,971	-	-	22,365	758,388
Insurance and other receivables:						
Neither past due nor impaired	-	-	-	-	1,218,945	1,218,945
Past due but not impaired	-	-	-	-	493,827	493,827
Individually impaired	-	-	-	-	165,101	165,101
Gross amount	-	-	-	-	1,877,873	1,877,873
Allowance for specific impairment	-	-	-	-	(165,101)	(165,101)
Carrying amount [note 30(a)(iii)]	-	-	-	-	1,712,772	1,712,772
Due from related company:						
Neither past due nor impaired	-	-	-	-	19,871	19,871
2018						
	AA \$'000	A \$'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 30(a)(iii)]	-	-	-	-	1,255,483	1,255,483
Due from related company:						
Neither past due nor impaired	-	-	-	-	66,219	66,219

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).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

30. 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:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Allied Insurance Brokers Limited	93,819	46,719
Assurance Brokers Limited	54,250	58,923
Chancellor Insurance Brokers	-	22,885
Citadel	21,385	36,007
Covenant Insurance Brokers Limited	27,879	21,692
Crichton Insurance Agency Limited	17,760	-
CSC	41,627	-
Field	16,060	-
Fraser, Fontaine and Kong Insurance Brokers Limited	57,355	31,434
Gallagher Insurance Brokers Jamaica Limited		
<i>(formerly CGM Gallagher Insurance Brokers Jamaica Limited)</i>	123,619	62,343
Jamaica Cooperative Insurance Agency	30,439	25,278
JMMB	-	15,830
Marathon Insurance Brokers	16,598	-
National Property and General Insurance Brokers Limited	12,038	-
Orion Insurance Brokers	-	13,583
Preferred Insurance Brokers	15,209	-
Spectrum Insurance Brokers	12,666	-
Tradewinds	<u>16,598</u>	<u>-</u>
	<u>557,302</u>	<u>334,694</u>

(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.

	<u>2019</u>				
	<u>0 to 45</u>	<u>46 to 60</u>	<u>61-90</u>	<u>More</u>	
	<u>days</u>	<u>days</u>	<u>days</u>	<u>than 90</u>	
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>days</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Receivable arising from insurance agents and brokers	273,544	122,130	130,200	286,994	812,868
Insurance premium financing	696,928	-	-	119,604	816,532
Other receivables	248,473	-	-	-	248,473
Less: Allowance for impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,101)</u>	<u>(165,101)</u>
Carrying amount [Note 30 (a)(i)]	<u>1,218,945</u>	<u>122,130</u>	<u>130,200</u>	<u>241,497</u>	<u>1,712,772</u>

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(a) Credit risk (cont'd)

(iii) Aged analysis (cont'd)

	2018				Total \$'000
	0 to 45 days	46 to 60 days	61-90 days	More than 90 days	
	\$'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 30(a)(i)]	<u>702,318</u>	<u>75,821</u>	<u>118,285</u>	<u>359,059</u>	<u>1,255,483</u>

(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 \$165,101,000 (2018: \$168,708,000) 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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:

	<u>2019</u>				<u>2018</u>
	<u>(12 month ECL)</u>				
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>	
	\$'000	\$'000	\$'000	\$'000	\$'000
Debt investment securities at FVOCI and amortised cost					
B3	7,696,077	-	-	7,696,077	6,827,178
D	<u>13,238</u>	<u>-</u>	<u>-</u>	<u>13,238</u>	<u>71,258</u>
Total gross carrying amount	7,709,315	-	-	7,709,315	6,898,436
Loss allowance					
B3	(26,860)	-	-	(26,860)	(16,492)
D	<u>(156)</u>	<u>-</u>	<u>-</u>	<u>(156)</u>	<u>(1,170)</u>
	<u>7,682,299</u>	<u>-</u>	<u>-</u>	<u>7,682,299</u>	<u>6,880,774</u>

(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 were recognised on initial adoption of IFRS 9 and there was no change during the period.

Impairment

For a discussion of 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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.

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.

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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)

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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 2019, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic factors a proxy of 1.07 (2018: 1.1) times ECL was determined to be appropriate.

The economic scenarios used as at December 31, 2019 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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:

	2019		
	Resale agreements \$'000	Investment \$'000	Total \$'000
Balance as at December 31, 2018	9,794	12,306	22,100
Recognised during the period	(968)	<u>9,989</u>	<u>9,021</u>
Balance at December 31, 2019	<u>8,826</u>	<u>22,295</u>	<u>31,121</u>

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

Credit exposure

Credit risk exposure to the company at December 31, 2019 and December 31, 2018, without taking account of any credit enhancements, is as follows:

Investment securities

	2019 \$'000	2018 \$'000
Corporate bonds	1,699,038	1,083,244
Government of Jamaica Securities	2,066,191	2,333,743
Other financial institutions	<u>3,944,086</u>	<u>3,481,469</u>
	7,709,315	6,898,456
Less allowance for expected credit losses	(27,016)	(17,662)
	<u>7,682,299</u>	<u>6,880,794</u>
Insurance and other receivables		

Credit exposures relating to insurance and other receivables see note 14 and 30(a).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(a) Credit risk (cont'd)

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, 2019 and December 31, 2018.

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.

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 100.3% (2018: 96%). 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

Management of liquidity risk (cont'd)

	2019					
	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	15,488	15,488	15,488	-	-	-
Insurance and other payable	1,387,498	1,387,498	1,387,498	-	-	-
Due to related companies	<u>19,871</u>	<u>19,871</u>	<u>19,871</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	1,422,857	1,422,857	1,422,857	-	-	-
Insurance contract liabilities:						
Claims liabilities	<u>4,800,281</u>	<u>4,800,281</u>	<u>2,649,686</u>	<u>60,399</u>	<u>768,943</u>	<u>721,253</u>
	<u>6,223,138</u>	<u>6,223,138</u>	<u>4,072,543</u>	<u>60,399</u>	<u>768,943</u>	<u>721,253</u>
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	<u>36</u>	<u>36</u>	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	1,342,168	1,342,168	1,342,168	-	-	-
Insurance contract liabilities:						
Claims liabilities	<u>4,478,730</u>	<u>4,478,730</u>	<u>2,512,678</u>	<u>584,978</u>	<u>674,183</u>	<u>706,891</u>
	<u>5,820,898</u>	<u>5,820,898</u>	<u>3,854,846</u>	<u>584,978</u>	<u>674,183</u>	<u>706,891</u>

(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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)

Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

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.

(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:

	<u>Carrying amount</u>	
	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Fixed rate instruments		
Financial assets	<u>5,678,806</u>	<u>5,279,360</u>
Variable rate instruments		
Financial assets	<u>584,926</u>	<u>733,235</u>

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 2018.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. Financial risk management (cont'd)

(c) Market risk (cont'd)

(i) Interest rate risk (cont'd)

<u>Sensitivity</u>	<u>Effect on Equity</u>			
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u> \$'000	<u>Decrease</u> \$'000
	<u>2019</u>			
Fixed rate instruments – J\$	<u>1%</u>	<u>1%</u>	<u>819</u>	<u>(57,220)</u>
– US\$	<u>1%</u>	<u>1%</u>	<u>57,680</u>	<u>(131,328)</u>
	<u>2018</u>			
Fixed rate instruments – J\$	<u>1%</u>	<u>1%</u>	<u>16,757</u>	<u>(37,024)</u>
– US\$	<u>1%</u>	<u>1%</u>	<u>80,524</u>	<u>(90,938)</u>

Cash flow sensitivity analysis for variable rate instruments

A 1% (2018: 1%) increase and a 1% (2018: 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 2018.

	<u>Effect on profit or loss</u>	
	<u>Increase</u> \$'000	<u>Decrease</u> \$'000
	<u>2019</u>	
Variable rate instruments – J\$	<u>5,849</u>	<u>5,849</u>
	<u>2018</u>	
Variable rate instruments – J\$	<u>7,332</u>	<u>7,332</u>

(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\$).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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:

	2019		2018	
	US\$'000	BD\$'000	US\$'000	BD\$'000
Foreign currency assets:				
Investments	9,777	250	9,747	250
Premium receivable	1,283	2,040	(55)	1,812
Cash and cash equivalents	1,543	75	248	1,778
Interest receivable	<u>180</u>	<u>-</u>	<u>157</u>	<u>-</u>
	<u>12,783</u>	<u>2,365</u>	<u>10,097</u>	<u>3,840</u>
Foreign currency liabilities:				
Accounts payable	40	90	40	90
Commission payable	250	253	123	256
Due to reinsurer	<u>696</u>	<u>797</u>	<u>423</u>	<u>581</u>
	<u>986</u>	<u>1,140</u>	<u>586</u>	<u>927</u>
Net foreign currency assets	<u>11,797</u>	<u>1,225</u>	<u>9,511</u>	<u>2,913</u>

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

US Dollar:

At December 31, 2019: \$129.78

At December 31, 2018: \$126.80

Barbados Dollar:

At December 31, 2019: \$64.81

At December 31, 2018: \$63.42

Sensitivity analysis

A 4% (2018: 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 \$62 million (2018: \$24 million).

A 6% (2018: 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 \$93 million (2018: \$49 million).

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

30. 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% (2018: 10%) increase or decrease in the bid price at the reporting date would cause an increase or an equal decrease respectively in equity of \$27 million (2018: \$9 million).

31. 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.

32. 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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

32. 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% (2018: 250%). At December 31, 2019, the company's capital ratio was 262.5% (2018: 253%).

33. 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.

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.

BRITISH CARIBBEAN INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
Years ended December 31, 2019 and December 31, 2018

33. 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 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, 2019 and December 31, 2018

33. 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:

		2019						
		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		<u>1,679,448</u>	<u>267,681</u>	<u>1,947,129</u>	<u>267,681</u>	<u>1,678,553</u>	<u>895</u>	<u>1,947,129</u>
		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:								
Investments securities		<u>1,549,996</u>	<u>88,599</u>	<u>1,638,595</u>	<u>88,599</u>	<u>1,549,101</u>	<u>895</u>	<u>1,638,595</u>

34. Dividends declared

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

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Ordinary dividends		
145,985,401 at \$0.685 (2018: \$2.1900) per share	100,000	320,000
Preference dividends		
72,992,701 at 40 cents (2018: 40 cents) per share	<u>29,197</u>	<u>29,197</u>
	<u>129,197</u>	<u>349,197</u>

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Years ended December 31, 2019 and December 31, 2018

35. Subsequent event

Subsequent to the reporting date, the World Health Organisation declared the Corona virus (COVID-19) outbreak a pandemic due to its rapid spread across the globe. Jamaica has been affected by the outbreak, which resulted in the Government of Jamaica declaring Jamaica a disaster area on March 13, 2020. This has disrupted business operations, caused a downturn in the economy and significantly increased economic uncertainty.

Accordingly, the company expects this to have adverse effects on its financial performance. However, an estimate of the amount was not made as at the authorisation date of the financial statements due to unavailability of sufficient information.