Massy United Insurance Ltd.
(Jamaica Branch)

Financial Statements
December 31, 2019
(expressed in Jamaica dollars)

Independent auditor's report

To the Members of Massy United Insurance Limited (Jamaica Branch)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Massy United Insurance Limited (Jamaica Branch) as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Company financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica
30 April 2020

Massy United Insurance Ltd. (Jamaica Branch)

Statement of Financial Position

For the year ended December 31, 2019

(expressed in thousands of Jamaica dollars)

	2019 $
Assets	
Cash and cash equivalents (note 4)	**64,173**
Fixed deposits (note 5)	**48,623**
Accounts receivable (note 6)	**145,910**
Reinsurance assets (note 7)	**446,327**
Property and equipment	**1,657**
Total assets	**706,690**
Liabilities	
Accounts payable (note 9)	**23,510**
General insurance liabilities (note 11)	**518,961**
Deferred acquisition costs (note 8)	**2,534**
Total liabilities	**545,005**
Home office account	
Head office	**150,945**
Retained earnings	**10,740**
	161,685
Total liabilities and home office account	**706,690**

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

Approved by the Board of Directors on April 29, 2020

______________________________ Director

Massy United Insurance Ltd. (Jamaica Branch)

Statement of Comprehensive Income

For the year ended December 31, 2019

(expressed in thousands of Jamaica dollars)

	2019 $
Revenue	
Gross premium earned (note 11)	**351,456**
Reinsurance premium ceded (note 11)	**(305,669)**
Net premiums earned	**45,787**
Losses recoverable from reinsurers (note 11)	**7,969**
Reinsurance commission	**28,904**
Investment income	**3,243**
Other income	**959**
	86,862
Expenses	
Losses and loss expenses (note 11)	**13,070**
Policy acquisition costs (note 12)	**17,670**
General and administrative expenses (note 10)	**45,382**
	76,122
Total comprehensive income for the year	**10,740**

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

Massy United Insurance Ltd. (Jamaica Branch)

Statement of Changes in Home Office Account

For the year ended December 31, 2019

(expressed in thousands of Jamaica dollars)

	Head office account $	Retained earnings $	Total $
Balance at December 31, 2018	–	–	–
Net income and total comprehensive income for the year	–	10,740	10,740
Transfers from home office - (net)	150,945	–	150,945
Balance at December 31, 2019	150,945	10,740	161,685

The accompanying notes are an integral part of these financial statements.

Massy United Insurance Ltd. (Jamaica Branch)

Statement of Cash Flows

For the year ended December 31, 2019

(expressed in thousands of Jamaica dollars)

	2019 $
Cash flows from operating activities	
Net income for the year	**10,740**
Adjustment for:	
Investment income	**(3,243)**
Operating income before working capital changes	**7,497**
Increase in accounts receivable	**(145,912)**
Increase in reinsurance assets	**(446,327)**
Increase in deferred acquisition costs	**2,534**
Increase in accounts payable	**23,510**
Increase in general insurance liabilities	**518,963**
Net cash used in operating activities	**(39,735)**
Cash flows from financing activities	
Net change in short-term deposits	**(380)**
Transfers from home office, net	**104,288**
Net cash flows from financing activities	**103,908**
Net increase in cash and cash equivalents	**64,173**
Cash and cash equivalents - beginning of year	**–**
Cash and cash equivalents - end of year	**64,173**

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

(expressed in thousands of Jamaica dollars)

1 General information

Massy United Insurance Ltd. ("the Company") is incorporated under the laws of Barbados and is a subsidiary of Massy (Barbados) Ltd. The ultimate parent of the Company is Massy Holdings Ltd., a company incorporated in Trinidad and Tobago. The Company's registered office is located at Massy Dome, Warrens, St. Michael. It is registered as an external insurer under the Insurance Act of Jamaica as an overseas company under the Companies Act of Jamaica.

The Company was advised of approval of its license to operate as an insurer on December 5, 2018 and thence full operations of the Jamaica Branch commenced. The license is effective from November 1, 2018.

The Company acts as a primary insurer for property, motor, liability and marine. The financial statements cover the Jamaica Branch of the Company.

2 Summary of significant accounting policies

The financial statements were prepared by Massy United Insurance Ltd. (Jamaica Branch) in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations. The financial statements have been prepared under the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 3.

i) Standards, amendments and interpretations adopted by the Branch

The standards, amendments and interpretations listed below did not have a significant impact on the amounts recognised in prior and current periods.

- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
- Amendments to IFRS 2, 'Share based payments' (effective 1 January 2018)
- Amendments to IFRS 4, 'Insurance contracts' (effective 1 January 2018)
- Amendment to IAS 40, 'Investment property' (effective 1 January 2018)
- Annual improvements to IFRS Standards 2014 – 2016 Cycle (effective 1 January 2018)
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018)

2 Summary of significant accounting policies *...continued*

(expressed in thousands of Jamaica dollars)

a) **Basis of preparation** *…continued*

ii) Standards, amendments and interpretations that are not yet effective for the financial year beginning October 1, 2018, not early adopted by the Branch and their impact has not yet been evaluated *…continued*

- IFRS 16 'Leases'. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. The accounting stays the same for lessors. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The IASB has also updated the guidance on the definition of a lease as well as the guidance on the combination and separation of contracts. Under IFRS 16, 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.

- IFRS 17, 'Insurance contracts'. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. 'IFRS 17 marks a new epoch for insurance contracts accounting'. The Group has not yet assessed the impact of this accounting standard.

- Amendments to IFRS 3 – definition of a business. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

iii) The following are new standards and interpretations which have not yet been adopted and are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Amendment to IFRS 9, Financial instruments, on prepayment features with negative compensation and modification of financial liabilities

- Annual improvements to IFRS Standards 2015 – 2017 Cycle

- Amendments to IAS 28, 'Investments in associates', on long term interests in associates and joint ventures

- Amendments to IAS 19, 'Employee benefits', on plan amendment, curtailment or settlement

- Amendments to IAS 1 and IAS 8, on the definition of 'material'

(expressed in thousands of Jamaica dollars)

2 Summary of significant accounting policies *...continued*

a) Basis of preparation *...continued*

- IFRIC 23, ‘Uncertainty over income tax treatments’

b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less. Cash and cash equivalents are shown net of bank overdrafts where the right of offset exists.

c) Impairment of assets

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If such indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of fair value less costs to sell or its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

If such indication exists, the Branch makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase.

d) Derecognition of financial assets

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Branch retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement;

(expressed in thousands of Jamaica dollars)

2 Summary of significant accounting policies *...continued*

d) Derecognition of financial assets*...continued*

- The Branch has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

- When the Branch has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Branch's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

e) Revenue recognition

Premium income:

Premiums written are recognized on policy inception and earned on a pro-rata basis over the term of the related policy coverage. Estimates of premiums written as at the balance sheet date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned. Premiums ceded are expensed on a pro-rata basis over the term of the respective policy.

Investment income:

Interest income is recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective yield method based on the initial transaction price.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Investment income also includes dividends when the right to receive payment is established.

f) Insurance and reinsurance contracts

Insurance and reinsurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an

(expressed in thousands of Jamaica dollars)

2 Summary of significant accounting policies ...*continued*

f) Insurance and reinsurance contracts ...*continued*

insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

At each financial statement date a liability adequacy test is performed to ensure the adequacy of insurance liabilities. If the test indicates that the provision for claims and claims expenses is
inadequate the liabilities are adjusted to correct the deficiency with the resulting charge being included in the statement of comprehensive income.

In the normal course of business, the Branch seeks to reduce the losses to which it is exposed that may cause unfavorable underwriting results by reinsuring a certain level of risk with reinsurance companies. Reinsurance premiums are accounted for on a basis consistent with that used in accounting for the original policies issued and /or the terms of the reinsurance contracts. The Branch may receive a ceding commission in connection with ceded reinsurance, which is earned in a manner consistent with the premiums ceded.

Reinsurance contracts ceded do not relieve the Branch from its obligations to policyholders. The Branch remains liable to its policyholders for the portion reinsured, to the extent that the reinsurers do not meet the obligations assumed under the reinsurance agreements.

g) Unearned premium reserve

Written premiums in respect of direct insurance business and reinsurance contracts assumed are reflected in the financial statements evenly over the terms of the insurance or reinsurance policies. Unearned premiums represent the unearned portion of the premiums written on policies in force at the end of the year.

At each financial statement date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the statement of comprehensive income by establishing an unexpired risk provision.

h) Outstanding claims reserve and property catastrophe reserve

Outstanding claims consist of estimates of the ultimate cost of claims incurred that have not been settled at the balance sheet date, whether reported or not, together with related claims handling costs. Significant delays may be experienced in the notification and settlement of certain types of general insurance claims, such as general liability business. Outstanding claims reserves are not discounted for the time value of money.

Estimates are calculated using methods and assumptions considered to be appropriate to the circumstances of the Branch and the business undertaken. This provision, while believed to be

(expressed in thousands of Jamaica dollars)

2 Summary of significant accounting policies *…continued*

h) Outstanding claims reserve and property catastrophe reserve *…continued*

adequate to cover the ultimate cost of losses incurred, may ultimately be settled for a different amount. It is continually reviewed, and any adjustments are recorded in operations in the period in which they are determined.

Unallocated loss adjustment expenses (ULAE) are included in the outstanding claims reserve at year end. The estimate of the reserve is arrived at by examining the overhead expenses allocated to the claims function. This estimate is reviewed by the actuary annually.

The principal assumption underlying the estimates is past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. In addition, larger claims are separately assessed by loss adjusters. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent periods.

i) Amounts receivable from reinsurance companies

Amounts receivable from reinsurance companies consist primarily of amounts due in respect of ceded insurance liabilities. Recoverable amounts are estimated in a manner consistent with the outstanding claims reserve or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If amounts receivable from reinsurance companies are impaired, the Branch reduces the carrying amount accordingly and recognizes an impairment loss in the statement of income. A reinsurance asset is impaired if there is objective evidence that the Branch may not receive all, or part, of the amounts due to it under the terms of the reinsurance contract.

j) Deferred acquisition costs and reinsurance commission

Deferred acquisition costs, which are reflected net of deferred reinsurance commission income, relate to commissions and other costs of acquiring insurance which vary with, and are primarily related to, the production of new and renewal business. Acquisition costs on premiums written and reinsurance commissions vary with and are directly related to the production of business. These costs and revenues are deferred and recognized over the period of the policies to which they relate.

k) Currency

Functional and presentation currency

These financial statements are expressed in Jamaica dollars which in the presentational currency of the Jamaica Branch.

(expressed in thousands of Jamaica dollars)

2 Summary of significant accounting policies *…continued*

k) Currency*…continued*

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities carried at fair value such as equities held at fair value through profit or loss are recognized as part of the fair value gain or loss in the statement of comprehensive income.

l) Premium and other receivables

Premium and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of comprehensive income within ‘general and administration expenses’.

3 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

Liabilities on insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is a critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Branch will ultimately pay for such claims.

Claim liabilities are based on estimates due to the fact that the ultimate disposition of claims incurred prior to the date of the financial statements, whether reported or not, is subject to the outcome of events that may not yet have occurred. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected recoveries. Events which may affect the ultimate outcome of claims

(expressed in thousands of Jamaica dollars)

3 Significant accounting judgments, estimates and assumptions*...continued*

Liabilities on insurance contracts*...continued*

include inter alia, jury decisions, court interpretations, legislative changes and changes in the medical condition of claimants.

Management engages an independent actuary to assist in the computation of the estimate of claim liabilities. The ultimate liability arising from claims may be mitigated by recovery arising from reinsurance contracts held.

4 Cash and cash equivalents

	2019 $
Cash at bank	**64,173**

The cash is held at FirstCaribbean International Bank (Jamaica) Ltd.

5 Fixed deposits

Fixed deposits with a carrying value of 48,623 are held at FirstCaribbean International Bank (Jamaica) Ltd. with an interest rate of 4.1% and mature after one year.

6 Accounts receivable

	2019 $
Accounts receivable from policyholders, brokers and agents	**144,579**
Staff loans	**520**
Other receivables	**811**
	145,910

7 Reinsurance assets

Reinsurance assets from reinsurance companies is comprised as follows:

	2019 $
Reinsurers' share of unearned premium reserves	**438,358**
Reinsurers' share of outstanding claims reserves	**7,969**
	446,327

(expressed in thousands of Jamaica dollars)

8 Deferred acquisition costs

	2019 $
Deferred commission expense	28,221
Deferred reinsurance commission income	(25,687)
	2,534

9 Accounts payable

	2019 $
Outstanding commission	18,787
Other payables	4,723
	23,510

10 General and administrative expenses

	2019 $
Salaries and employee benefits	20,561
Occupancy	6,496
Advertising	3,210
Telephone and communication	2,785
Other	12,330
	45,382

11 General insurance liabilities and insurance operations

	2019 $
Outstanding claims reserve	13,070
Unearned premium reserve	505,891
	518,961

(expressed in thousands of Jamaica dollars)

11 *General insurance liabilities and insurance operations*...*continued*

The Branch assumes property, motor, liability and marine risks from third parties and related companies. The Branch seeks to reduce the losses to which it is exposed by reinsuring certain levels of risk with reinsurance companies.

Movement in outstanding claims reserve may be analyzed as follows:

	Gross $	Reinsurance $	Net $
December 31, 2019			
Balance - beginning of year	-	-	-
Losses incurred	13,070	7,969	5,101
Losses paid	-	-	-
Balance - end of year	13,070	7,969	5,101

Movement in the unearned premium reserve may be analyzed as follows:

	Gross $	Reinsurance $	Net $
December 31, 2019			
Balance - beginning of year	-	-	-
Premiums written	857,347	744,027	113,320
Premiums earned	(351,456)	(305,669)	(45,787)
Balance - end of year	505,891	438,358	67,533

12 Policy acquisition costs

	2019 $
Ordinary commission	17,670

(expressed in thousands of Jamaica dollars)

13 Related party transactions

The following transactions were entered into with related parties.

	2019 $
Gross premiums written	**25,256**

14 Risk management

Governance framework

The primary objective of the Branch's risk and financial management framework is to protect the shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognizes the critical importance of having efficient and effective risk management systems in place.

The framework provides a basis for identification of risk and its interpretation, align underwriting and reinsurance strategy to corporate goals, and limit structure to ensure the appropriate quality and diversification of assets through its investment policy guidelines.

Capital management framework

The Branch's objectives when managing its capital (head office account and retained earnings) are:

- To safeguard the Branch's ability to continue as a going concern so that it can continue to provide returns to the Head Office and benefits for other stakeholders;
- To comply with the capital requirements set by the regulators of the insurance market within which it operates; and
- To maintain a strong capital base to support the development of its business.

The Branch seeks to maintain internal capital adequacy at levels higher than the regulatory requirement. The primary measure used to assess solvency by the regulator is the Minimum Capital Test (MCT).

	2019
Actual MCT ratio	**579%**
Minimum required MCT ratio	**250%**

(expressed in thousands of Jamaica dollars)

14 Risk management *…continued*

Insurance risk

The Branch primarily issues the following types of general insurance contracts: property, motor, liability and marine. The risks under these policies usually cover a duration of twelve months or less.

The primary risk the Branch has through its insurance contracts is that the actual claims payments or timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, and subsequent development of claims.

The aforementioned insurance risk exposure is also mitigated by diversification across a relatively large portfolio of insurance contracts. The variability of risk is also augmented by careful selection and execution of underwriting guidelines, as well as the use of reinsurance arrangements.
The amounts recoverable from reinsurers are in accordance with reinsurance contracts. Although the Branch has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit

exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Branch utilizes a claims review policy which concentrates on a review of large and personal injury claims where there is the potential for greater exposure and performs periodic review of claims handling procedures.

The Branch also enforces a policy of actively managing its claims portfolio in order to reduce its exposure to unpredictable future developments that can negatively impact the Branch.

The Branch has also limited its exposure by its utilization of reinsurance arrangements in order to limit exposure to catastrophic events. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The majority of the Branch's reinsurance coverage is placed with reputable third-party reinsurers.

The table below sets out the concentration of general insurance contract liabilities by type of contract.

	2019		
	General liabilities $	Reinsurers' share of liabilities $	Net liabilities $
Property	**10,094**	**7,126**	**2,968**
Motor	**173**	**13**	**160**
Engineering	**1,771**	**13**	**1,758**
Marine	**1,032**	**817**	**215**
	13,070	**7,969**	**5,101**

(expressed in thousands of Jamaica dollars)

14 Risk management *…continued*

Insurance risk*…continued*

Sensitivities

If the insurance liabilities and related reinsurers' share were to increase by 10%, the impact on income before tax and equity would be as follows:

	Change in assumptions	Impact on gross liabilities $	Impact on reinsurers' share $	Impact on income before tax $	Impact on equity $
December 31, 2019					
Average claim cost	**10%**	**1,307**	**797**	**510**	**510**

Credit Risk

The Branch's exposure to credit risk arises from the possibility that counterparties may default on their obligations to the Branch. The amount of the Branch's maximum exposure to credit risk is indicated by the carrying value of its financial assets. Management believes that risk is mitigated by the quality of the counterparties.

The total assets bearing credit risk is as follows:

	2019 $
Cash and cash equivalents	**64,173**
Fixed deposits	**48,623**
Accounts receivable	**145,910**
Reinsurance assets	**7,969**
	266,675

Credit risks arising on cash and cash equivalents and fixed deposits are considered minimal as the Branch's banker is a licensed institution in Jamaica.

Additional information on credit risk for accounts receivables at the financial statement date is disclosed in Note 6. The Branch selects reinsurers with A.M. Best ratings A- or higher.

As at year end, the aging analysis of accounts receivable from policyholders, brokers and agents was as follows:

(expressed in thousands of Jamaica dollars)

14 Risk management *…continued*

Credit risk*…continued*

	Total	Neither past due nor impaired	Past due but not impaired 45 - 60 days	Past due but not impaired 60 - 90 days	Past due but not impaired > 90 days
	$	$	$	$	$
2019	**144,579**	**81,908**	**7,034**	**8,538**	**47,099**

As at year end, receivables with a value of $5,881 were deemed impaired.

Liquidity risk

The Branch is exposed to calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Branch mitigates liquidity risk by holding highly liquid financial assets.

The table below summarizes the expected recovery or settlement of financial and insurance liabilities.

	Less than 1 year	1 - 3 years	Total
	$	$	$
December 31, 2019			
Liabilities			
Accounts payable	**23,510**	–	**23,510**
General insurance liabilities:			
Total outstanding claims	**13,070**	–	**13,070**
Total	**36,580**	–	**36,580**

Fair values

The carrying values of the financial assets and liabilities approximate to their fair values given their short-term maturity.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Branch's currency is pegged to the United States dollar and as a result the Branch is not exposed to material foreign currency risk.

(expressed in thousands of Jamaica dollars)

14 Risk management *…continued*

Interest rate risk

The Branch's interest-bearing assets are of a fixed rate nature and therefore changes in the market interest rates would not impact the carrying value or future income from the instrument.

15 Statutory restrictions on assets

The Branch is registered to conduct insurance business under legislation in Jamaica. This legislation prescribes a number of requirements with respect to deposits, investment of funds and solvency for the protection of policy holders.

To meet these requirements, fixed deposits totalling $45,000 are held at FirstCaribbean International Bank (Jamaica) Ltd.

16 Subsequent events

In December 2019, a novel strain of coronavirus known as COVID-19 was reported to have surfaced in China. The global efforts to contain the spread of the coronavirus began to cause significant disruption in the global and local economies from January 2020 to date. The related financial impact and duration cannot be reasonably estimated at this time.