Independent Auditors' Report

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KPMG

To the Members of
Advantage General Insurance Company Limited

Report on the Financial Statements

We have audited the financial statements of Advantage General Insurance Company Limited ("the company"), set out on pages 1 to 10 which comprise the statement of financial position as at December 31, 2011, the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2011, and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

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 and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica
February 21, 2012

Statement of Financial Position
December 31, 2011

	Notes	2011 $'000	2010 $'000
Assets			
Property, plant and equipment	6	350,219	339,097
Investment properties	7	903,000	904,300
Intangible assets	8	11,271	10,198
Investments	9	2,451,645	2,373,694
Reinsurance assets	10	226,035	443,666
Insurance receivables and deferred expense	11	474,442	413,294
Taxation recoverable		336,247	476,569
Deferred tax asset	12	-	99,330
Employee benefit assets	13	124,918	126,394
Other accounts receivable		85,591	153,936
Accrued investment income		97,210	59,462
Cash and cash equivalents		3,702,645	3,162,438
		8,763,223	8,562,378
Liabilities			
Insurance contract provisions	10	5,703,247	5,580,793
Accounts payable and accrued charges	15	256,745	131,992
Deferred tax liability	12	141,139	-
Insurance payables	16	74,077	136,905
		6,175,208	5,849,690
Shareholders' Equity			
Share capital	17	1,950,002	1,950,002
Capital reserve	18	80,587	76,384
Investment reserves	5(f)(i)	308,378	344,377
Accumulated surplus		249,048	341,925
		2,588,015	2,712,688
		8,763,223	8,562,378

The financial statements on pages 1 to 10 were approved by the Board of Directors on February 21, 2012, and signed on its behalf by:

Hon. Michael Lee-Chin, O.J., Chairman

John Bell, Director

Statement of Comprehensive Income
Year ended December 31, 2011

	Notes	2011 $'000	2010 $'000
Gross premiums written		4,762,506	4,940,940
Change in gross provision for unearned premiums		(72,919)	(176,807)
Gross insurance premium revenue		4,689,587	4,764,133
Written premiums ceded to reinsurers		(303,843)	(1,084,859)
Reinsurers' share of change in provision for unearned premiums		(183,073)	(14,623)
Net insurance premium revenue	10(b)	4,202,671	3,664,651
Claims expenses incurred	10	(2,597,601)	(2,456,634)
Reinsurers' share of claims and benefits incurred	10	59,254	29,679
Net insurance claims and benefits incurred		(2,538,347)	(2,426,955)
Commission income	16	13,844	68,155
Commission expense	11(b)	(251,437)	(415,705)
Net commission expense		(237,593)	(347,550)
Operating expenses		(1,062,081)	(914,565)
Finance costs		(10,358)	(8,983)
Other underwriting income		94,580	83,500
		(977,859)	(840,048)
Underwriting profit before other income and taxation		448,872	50,098
Change in fair value of investment properties		4,346	(4,470)
Investment income	19	981,953	463,982
Foreign exchange gains/ (losses), net		1,022	(56,360)
Other investment expenses		(95,287)	(74,282)
Profit before taxation	20	1,340,906	378,968
Taxation	21	(472,941)	(149,647)
Profit for the year		867,965	229,321
Other comprehensive income			
(Decrease)/increase in fair value of investments		(35,999)	248,380
Increase in revaluation of property, plant and equipment		6,305	7,206
Deferred tax on revaluation of property, plant and equipment	12	(2,102)	(2,402)
Other comprehensive (loss)/income, net of taxation		(31,796)	253,184
Total comprehensive income for the year		836,169	482,505

Statement of Changes in Shareholders' Equity
Year ended December 31, 2011

	Share capital $'000 (note 17)	Capital reserve $'000 (note 18)	Investment Reserves $'000	Accumulated surplus $'000	Total $000
Balances at December 31, 2009	1,950,002	71,580	95,997	112,604	2,230,183
Profit for the year	-	-	-	229,321	229,321
Other comprehensive income:					
Recognition of deferred taxation included in capital reserve	-	(2,402)	-	-	(2,402)
Revaluation of investments and property, plant & equipmen	-	7,206	248,380	-	255,586
Total other comprehensive income	-	4,804	248,380	-	253,184
Total comprehensive income for the year	-	4,804	248,380	229,321	482,505
Balances at December 31, 2010	1,950,002	76,384	344,377	341,925	2,712,688
Profit for the year	-	-	-	867,965	865,965
Other comprehensive income:					
Recognition of deferred taxation included in capital reserve	-	(2,102)	-	-	(2,102)
Revaluation of investments and property, plant & equipment	-	6,305	(35,999)	-	(29,694)
Total other comprehensive income	-	4,203	(35,999)	-	(31,796)
Total comprehensive income for the year	-	4,203	(35,999)	867,965	836,169
Dividends paid [note 25]	-	-	-	(960,842)	(960,842)
Balances at December 31, 2011	1,950,002	80,587	308,378	249,048	2,588,015

Statement of Cash Flows
Year ended December 31, 2011

	2011 $'000	2010 $'000
Cash Flows From Operating Activities		
Profit for the year	867,965	229,321
Adjustments for:		
Depreciation on plant, property and equipment	25,856	22,745
Depreciation on intangible asset	5,350	16,126
Loss on disposal of property, plant & equipment and investment properties, net	582	14,840
Reinsurance assets	217,631	128,545
Change in fair value of investment properties	(4,346)	4,470
Increase in insurance contract provisions	122,454	262,529
Taxation	472,941	149,647
Employee benefit assets	1,476	(6,766)
Bad debts	36,182	44,441
(Gains) /losses on foreign exchange	(1,022)	56,360
Interest income	(408,291)	(377,473)
	1,336,778	544,785
Changes in:		
Insurance receivables & deferred expenses	(61,148)	304,618
Other accounts receivable	32,163	(20,520)
Accounts payable and accrued charges	124,753	24,662
Insurance payables and deferred income	(62,828)	72,508
	1,369,718	926,053
Taxation withheld	(94,252)	(78,209)
Net cash provided by operating activities	1,275,466	847,844
Cash Flows From Investing Activities		
Interest received	370,543	418,920
Additions to property, plant and equipment and intangible assets	(37,118)	(77,894)
Additions to investment properties	(2,354)	(670)
Additions to investments, net	(112,928)	1,415,437
Proceeds of sale of property, plant and equipment and investment properties	7,440	13,236
Net cash provided by investing activities	225,583	1,769,029
Net cash flow provided before dividend payments	1,501,049	2,616,873
Cashflows From Financing Activity		
Dividends paid	(960,842)	-
Net increase in cash and cash equivalents	540,207	2,616,873
Cash and cash equivalents at beginning of the year	3,162,438	545,565
Cash and cash equivalents at end of the year	3,702,645	3,162,438
Cash and cash equivalent comprises:		
Cash and bank balances	155,380	182,757
Short-term investments	3,547,265	2,979,681
	3,702,645	3,162,438

Notes to the Financial Statements
Year ended December 31, 2011

1. Corporate structure and nature of business

The company is incorporated under the laws of Jamaica, and is an 80% subsidiary of AIC (Barbados) Limited, which is incorporated in Barbados. The company's registered office is located at 4-6 Trafalgar Road, Kingston 5. The ultimate parent company is Portland Holdings Inc., incorporated in Canada.

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

2. Insurance licence

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

3. Roles of the actuary and auditors

The actuary has been appointed by the Board of Directors pursuant to the Act. With respect to the preparation of the financial statements, the actuary is required to carry out an actuarial valuation of management's estimate of the company's policy liabilities and report thereon to the shareholders. Actuarially determined policy liabilities consist of the provisions for, 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 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 have been appointed by the shareholders pursuant to the Jamaican Companies Act to conduct an independent and objective audit of the financial statements of the company in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

4. Statement of compliance and basis of preparation

(a) Statement of compliance:

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

Certain new, revised and amended standards and interpretations came into effect during the current financial year. There was no material impact on the financial statements as a result of these amendments.

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at the financial year end and which the company has not early-adopted. The company has assessed the relevance of all such new standards, amendments and interpretations with respect to the company's operations and has determined that the following are relevant to its operations:

- IFRS 9, Financial Instruments (2010). The revised IFRS supersedes the previous version of IFRS 9 issued in 2009 and is effective for accounting periods beginning on or after January 1, 2015 (previously January 1, 2013). The revised standard now includes guidance on classification and measurement of financial liabilities designated as fair value through profit or loss and incorporates certain existing requirements of IAS 39 Financial Instruments: Recognition and Measurement on the recognition and de-recognition of financial assets and financial liabilities.

- IAS 1, Presentation of Financial Statements, has been amended, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.

- IFRS 13, Fair Value Measurement, which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- IAS 12 Income Taxes, has been amended, effective for annual reporting periods beginning on or after January 1, 2012, to require an entity to measure deferred taxes relating to an asset based on whether the entity expects to recover the carrying amount of the asset through use or sale.

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

(a) Statement of compliance (cont'd)

- Disclosures – Transfer of Financial Assets (Amendments to IFRS 7) is effective for accounting periods beginning on or after July 1, 2011. The amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of and risks associated with the entity's continuing involvement in these derecognized assets.

- IAS 19, Employee Benefits, (effective January 1, 2013) which requires all actuarial gains and losses to be recognized immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss. The expected return on plan assets recognized in profit or loss is to be calculated based on the rate used to discount the defined benefit obligation. The amendment also includes changes to the definitions and disclosure requirements in the current standard.

The company is assessing the impact, if any, that these standards and amendments will have on its 2012 and 2015 financial statements.

(b) Basis of preparation:

These financial statements are prepared using the historical cost basis, modified for the inclusion of land and buildings at market value and available for sale investments at fair value.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

These financial statements are presented in Jamaica dollars ($), which is the currency in which the company conducts the majority of its operations.

The significant accounting policies used in the preparation of the financial statements are summarised below and conform in all material respects to IFRS and the Jamaican Companies Act. The accounting policies have been applied consistently to all periods presented in these financial statements.

5. Significant accounting policies

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances, and include short-term deposits and other monetary investments with maturities ranging between one and three months from the dates of acquisition.

Bank overdrafts repayable on demand and forming an integral part of the company's cash management activities are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(b) Accounts receivable:

Trade and other receivables are stated at amortised cost less impairment losses.

(c) Accounts payable:

Trade and other payables, are stated 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, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(e) Related parties:

A party is related to the company, if:

(i) directly, or indirectly through one or more intermediaries, the party:
  - **(a)** is controlled by, or is under common control with, the company;
  - **(b)** has an interest in the company that gives it significant influence over the company; or
  - **(c)** has joint control over the company;

(ii) the party is an associate of the company;
(iii) the party is a joint venture in which the company is a venturer;
(iv) the party is a member of the key management personnel of the company;
(v) the party is a close member of the family of any individual referred to in (i) or (iv);
(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
(vii) the party is a post-employment benefit plan for the benefit of employees of the company.

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

(f) Investments:

(i) Available-for-sale:
Available-for-sale investments are stated at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost, with movements in fair value included in investment revaluation reserve, except where there is evidence of impairment, in which event, reductions in fair value are recognised in profit or loss.

(ii) Loans and receivables:
Investments with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables and are initially measured at cost and subsequently at amortised cost, using the effective interest method, less impairment losses.

5. Significant accounting policies (cont'd)

(g) Property, plant and equipment and intangible assets:

Property, plant and equipment and intangible assets are stated at cost, except for land and buildings, which are stated at revalued amount, less accumulated depreciation/amortisation and impairment losses.

(h) Depreciation and amortisation:

Property, plant & equipment and intangible assets with the exception of freehold land, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. Leasehold improvements are depreciated over the shorter of the period of the lease and the expected useful lives.

The depreciation/amortisation rates are as follows:

Freehold buildings	**2.5%/useful lives**
Furniture, fixtures and office equipment	**10%, 25%**
Leasehold improvement	**10%**
Motor vehicles	**20%**
Computer software	**20%**

(i) 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. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Jamaica dollars at the rates of exchange ruling on that date. 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 principal balances.

(j) Impairment:

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

The recoverable amount of the company's loans and receivables is calculated as the present value of the 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 the other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted at 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) Reversal of impairment:
An impairment loss in respect of investments, loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in estimate 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, if no impairment loss had been recognised. Impairment losses on available for sale investments are reversed through other comprehensive income.

(k) Revenue recognition:

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

(l) Underwriting results:

These 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, deferred commission expense and deferred commission income.

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

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.

5. Significant accounting policies (cont'd)

(m) Reinsurance ceded:
Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned premium on business ceded up to the reporting date, which is attributable to subsequent periods is calculated substantially on the "twenty-fourths" basis on the total premiums ceded.

(n) Taxation:
Taxation on 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 directly to equity, in which case it is 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.

(o) Employee benefits:
Employee benefits comprise all forms of consideration given by an enterprise in exchange for service rendered by employees.

These include current or short-term benefits such as salaries, NIS contributions paid, annual vacation and sick leave, and post-employments benefits, such as pensions and other long-term employee benefits, such as long service benefits.

(i) General benefits:
Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense.

The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below. Other long-term benefits are not considered material.

(ii) Defined benefit pension plan:
The company sponsors a defined benefit pension plan for employees who have satisfied certain minimum service requirements.

Employee pension benefits 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 valuations were conducted in accordance with IAS 19, and the financial statements reflect the company's net post-employment benefits asset 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.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of comprehensive income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in profit or loss.

In calculating the company's obligation in respect of the plan, to the extent that any cumulative actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss, over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(p) Financial instruments:
A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, premiums receivable, other accounts receivable and amounts due from other insurance companies, investments, accrued investment income and due from related companies. Financial liabilities include accounts payable, amounts due to other insurance companies and related party balances.

(q) Determination of fair value:
Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. 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.

(r) Accounting estimates and judgement:
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.

5. Significant accounting policies (cont'd)
(r) Accounting estimates and judgement (cont'd)

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

(i) Allowance for impairment losses on receivables:
In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default and adverse economic conditions.

Management makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

(ii) Insurance liabilities, reinsurance recoverable and financial instruments:

Notes 5(l) and 10 contain information about the assumptions and uncertainties relating to insurance liabilities and amounts recoverable in respect of claims from reinsurers and disclose the risk factors in these contracts. Note 23 contains information about the risks and uncertainties associated with financial instruments.

(iii) Taxation:
The company accounts for taxation in accordance with IAS 12. Accordingly, the company provides deferred tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax base of assets and liabilities based on currently enacted tax laws. The tax balances and tax expense/credit recognized by the company are based on management's interpretation of the tax laws and IAS 12. Taxation expense/credit also reflects the company's best estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of tax laws and IAS 12, tax planning and the split of the investment property valuation between that which relates to rental income and that which relates to capital appreciation. Future changes in tax laws, changes in projected levels of taxable income, tax planning and the split of the change in valuation of the investment property between that which related to income and that which relates to capital appreciation, could affect the effective tax rate and tax balances recorded by the company.

(iv) Defined benefit pension plan:
Note 13(e) contains information about the assumptions relating to employee benefit assets.

(v) Investment properties:
The valuation of investment properties is based on the judgment and assumptions used by independent appraisers.

Investment properties are carried at open market value using valuations performed on an annual basis by independent appraisers or the directors. Changes in the fair value of investment properties are recognised in profit or loss.

For properties that have dual usage, in order to determine the portion that can qualify as investment property, the directors, based on their judgment, estimate that if a significant portion (greater than 40% but less than 50%) is being used for own use, this portion is classified as property, plant and equipment and the remaining portion classified as investment property.

(s) Dividends:
Dividends on ordinary shares are recognized in shareholders' equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

6. Property, plant and equipment

	Land and buildings $'000	Leasehold improvements $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation:					
December 31, 2009	218,991	12,456	273,080	5,166	509,693
Additions	-	-	71,346	-	71,346
Revaluation adjustment	1,809	-	-	-	1,809
December 31, 2010	220,800	12,456	344,426	5,166	582,848
Additions	-	-	30,695	-	30,695
Revaluation adjustment	1,650	-	-	-	1,650
Disposal	-	-	(70)	-	(70)
December 31, 2011	222,450	12,456	375,051	5,166	615,123
Depreciation:					
December 31, 2009	955	6,450	217,323	1,675	226,403
Charge for the year	4,445	1,325	15,977	998	22,745
Revaluation adjustment	(5,397)	-	-	-	(5,397)
December 31, 2010	3	7,775	233,300	2,673	243,751
Charge for the year	4,652	675	19,528	1,001	25,856
Disposal	-	-	(48)	-	(48)
Revaluation adjustment	(4,655)	-	-	-	(4,655)
December 31, 2011	-	8,450	252,780	3,674	264,904
Net book values:					
December 31, 2011	222,450	4,006	122,271	1,492	350,219
December 31, 2010	220,797	4,681	111,126	2,493	339,097
December 31, 2009	218,036	6,006	55,757	3,491	283,290

Freehold land and buildings include land at valuation aggregating $62,500,000 (2010: $62,500,000). The carrying value of land and building excluding revaluation is $217,412,810 (2010:$222,065,000).

7. Investment properties

	2011 $'000	2010 $'000
Balance at beginning of year	904,300	929,100
Additions	2,354	670
Disposal	(8,000)	(21,000)
Changes in fair value	4,346	(4,470)
Balance at end of year	903,000	904,300

	2011 $'000	2010 $'000
Income earned from the properties	38,546	43,661
Expenses incurred by properties	(133,252)	(103,102)

Investment properties at December 31, 2011 are stated at fair value derived from valuations done by independent valuators, Allison Pitter and Company during November 2011 and January 2012.

Investment properties include land at valuation aggregating $325,000,000 (2010: $309,300,000).

8. Intangible assets

	2011 $'000	2010 $'000
This represents computer software as follows:		
Cost:		
At beginning of year	145,443	138,895
Additions	6,423	6,548
At end of year	151,866	145,443
Amortisation:		
At beginning of year	135,245	119,119
Charge for the year	5,350	16,126
At end of year	140,595	135,245
Net book value	11,271	10,198

9. Investments

	2011 $'000	2010 $'000
Loans and receivables:		
Within 1 year:		
Government of Jamaica Bonds	-	29,551
Over 5 years:		
Government of Jamaica Bonds	87,045	87,400
	87,045	116,951
Available for sale:		
Within 1 year:		
Government of Jamaica Investment Notes	450,755	212,250
Treasury Bills	158,065	19,903
Within 1 and 5 years:		
Government of Jamaica Investment Notes	1,097,227	995,758
Over 5 years:		
Government of Jamaica Investment Notes	310,566	16,550
Quoted equities	347,570	969,120
Unquoted investments	417	43,162
	2,364,600	2,256,743
	2,451,645	2,373,694

Investments include foreign currency investments aggregating US$916,000 (2010: US$1,255,000). At December 31, 2011, the fair value of loans and receivables aggregated $94,150,000 (2010: $118,489,000).

Government of Jamaica securities include amounts totalling $55,330,000 (2010: $54,125,000), which are deposited with the Financial Services Commission in accordance with the Insurance Regulations 2001.

10. Reinsurance assets and insurance contract provisions

	2011			2010		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims outstanding [note 10(a)]	3,427,150	(104,502)	3,322,648	3,377,615	(139,060)	3,238,555
Unearned premiums [note 10(b)]	2,276,097	(121,533)	2,154,564	2,203,178	(304,606)	1,898,572
	5,703,247	(226,035)	5,477,212	5,580,793	(443,666)	5,137,127

Analysis of movements in insurance contract provisions - Claims outstanding:

	2011			2010		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Claims notified	3,304,001	(224,368)	3,079,633	3,404,263	(354,601)	3,049,662
Claims incurred but not reported	73,614	85,308	158,922	(112,370)	101,619	(10,751)
Balance at January 1	3,377,615	(139,060)	3,238,555	3,291,893	(252,982)	3,038,911
Claims incurred	2,597,601	(59,254)	2,538,347	2,456,634	(29,679)	2,426,955
Claims paid in year	(2,548,066)	93,812	(2,454,254)	(2,370,912)	143,601	(2,227,311)
Balance at December 31	3,427,150	(104,502)	3,322,648	3,377,615	(139,060)	3,238,555
Analysis:						
Claims notified	3,051,208	(148,900)	2,902,308	3,304,001	(224,368)	3,079,633
Claims incurred but not reported	375,942	44,398	420,340	73,614	85,308	158,922
Balance at December 31	3,427,150	(104,502)	3,322,648	3,377,615	(139,060)	3,238,555

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

(a) Outstanding claims include claims payable of $31,287,000 (2010: $33,041,000) under policies issued to related parties.

(b) Unearned premiums:

	2011			2010		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Balance at January 1	2,203,178	(304,606)	1,898,572	2,026,371	(319,229)	1,707,142
Premiums written during the year	4,762,506	(303,843)	4,458,663	4,940,940	(1,084,859)	3,856,081
Premiums earned during the year	(4,689,587)	486,916	(4,202,671)	(4,764,133)	1,099,482	(3,664,651)
	72,919	183,073	255,992	176,807	14,623	191,430
Balance at December 31	2,276,097	(121,533)	2,154,564	2,203,178	(304,606)	1,898,572

Gross unearned premiums are analysed as follows:

	2011 $'000	2010 $'000
Liability	4,048	12,131
Motor	2,117,151	1,820,803
Pecuniary loss	501	716
Property	154,397	369,528
	2,276,097	2,203,178

Process used to determine the assumptions for measuring insurance contracts:

The company adopts a consistent process in the calculation of an adequate provision for insurance contracts. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

The insurance claims 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 a range of 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.

Provisions for claims incurred but not reported 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. 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.

11. Insurance receivables and deferred expense

	2011 $'000	2010 $'000
Receivables arising from insurance and reinsurance contracts due from other insurance companies	-	6,463
Premiums receivable (a)	347,107	277,382
Deferred commission expense (b)	127,335	129,449
	474,442	413,294

(a) The premiums receivable balance is shown after an allowance for impairment of $52,083,000 (2010: $89,060,000), which includes a provision of $1,231,000 (2010: $9,847,000) on balances due from related parties.

(b) The analysis of the deferred commission expense is as follows:

	2011 $'000	2010 $'000
Balance at January 1	129,449	155,016
Commissions paid during year	249,323	390,138
Recognised in income during the year	(251,437)	(415,705)
Balance at December 31	127,335	129,449

12. Deferred tax asset/(liability)

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

2011	Balance at January 1 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Balance at December 31 $'000
Accounts payable and accrued charges	821	(821)	-	-
Investment properties	(29,694)	1,044	-	(28,650)
Property, plant and equipment and intangible assets	(34,459)	(1,886)	(2,102)	(38,447)
Tax benefit of unused tax losses	224,615	(224,615)	-	-
Accounts receivable	(19,822)	(12,581)	-	(32,403)
Employee benefit assets	(42,131)	492	-	(41,639)
	99,330	(238,367)	(2,102)	(141,139)

2010	Balance at January 1 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Balance at December 31 $'000
Accounts payable and accrued charges	797	24	-	821
Investment properties	(29,087)	(607)	-	(29,694)
Property, plant and equipment and intangible assets	(30,439)	(1,618)	(2,402)	(34,459)
Tax benefit of unused tax losses	384,805	(160,190)	-	224,615
Investments	(1,185)	1,185	-	-
Accounts receivable	(33,636)	13,814	-	(19,822)
Employee benefit assets	(39,876)	(2,255)	-	(42,131)
	251,379	(149,647)	(2,402)	99,330

13. Employee benefit assets

The company sponsors a defined benefit pension scheme, which is open to all employees who have satisfied certain minimum service requirements, and is managed by a related company. The scheme is funded by employee contributions at rates of either 5% or 10% of salary and employer contributions at the rate of 5%. Retirement and other benefits are based on average salary for the last three years of pensionable service.

The amounts recognised in the financial statements in respect of pension benefits are as follows:

(a) Asset recognised:

	2011 $'000	2010 $'000
Present value of funded obligations	(482,198)	(344,190)
Fair value of plan assets	445,741	356,489
	(36,457)	12,299
Unrecognised actuarial loss	161,375	114,095
	124,918	126,394

Plan assets consist of:

	2011 $'000	2010 $'000
Government of Jamaica Securities	221,309	305,658
Equities	45,484	28,864
Repurchase agreements	127,837	-
Other	51,111	21,967
	445,741	356,489

(b) Movements in the net assets recognised:

	2011 $'000	2010 $'000
Net assets at January 1	126,394	119,628
Expenses recognised in comprehensive income	(19,074)	(10,798)
Contributions paid	17,598	17,564
Net assets at December 31	124,918	126,394

(c) Movement in plan assets:

	2011 $'000	2010 $'000
Fair value of plan assets at January 1	356,489	262,969
Contributions	41,629	41,570
Expected returns on plan assets	37,615	30,657
Benefits paid	(15,003)	(10,102)
Actuarial loss on plan assets	25,011	31,395
Fair value of plan assets at December 31	445,741	356,489

(d) Expense recognised in profit for the year:

	2011 $'000	2010 $'000
Current service costs	(16,189)	(3,085)
Interest on obligation	(37,175)	(36,789)
Net actuarial gain	(3,325)	(1,581)
Expected return on plan assets	37,615	30,657
	(19,074)	(10,798)

13. Employee benefit assets (cont'd)

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

	2011 %	2010 %
Discount rate	10.0	11.0
Expected return on plan assets	10.0	11.0
Rate of salary increases	7.5	8.0
Rate of inflation	6.0	7.0
Rate of increase in employee benefit assets	3.0	4.0

The overall expected long-term rate of return of assets is 10%. The expected long-term rate of return is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on growth redemption yields at the reporting date. Expected returns on equity and property investment reflect long-term real rates of return experienced in the market.

(f) Historical information:

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Present value of the defined benefit obligation	(482,198)	(344,190)	(207,891)	(187,555)	(208,152)
Fair value of plan assets	445,741	356,489	262,969	210,604	367,957
(Deficit)/surplus in plan	(36,457)	12,299	55,078	23,049	159,805
Experience adjustments arising on plan liabilities	52,851	(32,540)	(22,409)	(58,691)	370
Experience adjustments arising on plan assets	25,011	31,395	2,178	(212,534)	(472)

The company expects to pay $20.3 million in contributions to the defined benefit plan in 2012 (2011: $18 million).

14. Related parties

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

	2011 $'000	2010 $'000
Investments		
- shares in related companies	310,897	939,251
- unquoted equities	-	42,745
Insurance receivables and deferred expenses	31,015	9,847
Accrued investment income	-	3,146

(b) Profit for the year includes the following income earned from, and expenses incurred in, transactions with related parties. The transactions were in the ordinary course of business.

	2011 $'000	2010 $'000
Income:		
Dividend received	55,538	81,960
Gross premiums written	92,149	169,042
Interest income	217	59,084
Expenses:		
Claims	61,373	60,883
Operating expenses – internet & cable	3,036	1,894
management fees	20,992	21,294
security costs	28,526	26,955

15. Accounts payable and accrued charges

	2011 $'000	2010 $'000
Accounts payable and accrued charges	166,804	66,231
Other payables	89,941	65,761
	256,745	131,992

16. Insurance payables

	2011 $'000	2010 $'000
Payables arising from insurance and reinsurance contracts	57,590	116,372
Deferred commission income	16,487	20,533
	74,077	136,905

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

	2011 $'000	2010 $'000
Balance at January 1	20,533	39,202
Commission received during the year	9,798	49,486
Amounts recognised in income during the year	(13,844)	(68,155)
Balance at December 31	16,487	20,533

17. Share capital

	2011 $'000	2010 $'000
Authorised, issued and fully paid (see note 27):		
6,000,010,000 ordinary shares without par value	1,950,002	1,950,002

18. Capital reserve

Capital reserve is comprised as follows:

	2011 $'000	2010 $'000
Surplus on revaluation of land and buildings	101,979	95,674
Deferred tax arising from surplus on revaluation of land and buildings	(23,642)	(21,540)
Realised gain on disposal of investment properties	2,250	2,250
	80,587	76,384

Realised capital reserves are available for distribution to shareholders, subject to transfer tax at 4% (2010: 4%).

19. Investment income, net

	2011 $'000	2010 $'000
Interest income	408,291	377,473
Dividend income	57,441	83,587
Gains on disposal of investments	531,574	8,750
	997,306	469,810
Less: investment expenses	(15,353)	(5,828)
Total investment income	981,953	463,982

20. Disclosure of expenses and income

(a) Profit for the year is stated after charging:

	2011 $'000	2010 $'000
Depreciation and amortisation	31,206	38,871
Directors' emoluments - fees	4,701	5,039
- management remuneration (inclusive of profit share)	35,606	16,338
Auditors' remuneration	7,900	6,300
Salaries and related costs	618,235	565,480
Loss on sale of property, plant and equipment and investment properties, net	582	14,840

(b) Transactions with key management personnel:

Compensation of key management personnel is as follows:

	2011 $'000	2010 $'000
Short term employment benefits:		
Salary (inclusive of profit share)	115,411	84,028
Pension contributions	3,654	3,454
	119,065	87,482

21. Taxation

(a) Taxation for the year is based on results for the year as adjusted for tax purposes and comprises the following:

	2011 $'000	2010 $'000
Current tax expense:		
Income tax at 33 %	4,051	-
Adjustment in respect of prior years (note 26)	230,523	-
	234,574	-
Deferred taxation:		
Origination and reversal of temporary differences	238,367	(10,543)
Tax benefit of unused tax losses	-	160,190
	472,941	149,647

(b) Taxation losses, subject to agreement by the Commissioner of Taxpayer Audit and Assessment, amounted to approximately $Nil (2010: $673,845,000). If unutilised, these losses can be carried forward indefinitely for offset against future taxable profits.

(c) Reconciliation of actual tax expense:

	2011 $'000	2010 $'000
Profit before tax	1,340,906	378,968
"Expected" tax at 33% of profit before tax	446,968	126,323
Effect on income tax of treating the following items differently for tax purposes:		
Depreciation and capital allowances	2,351	(1,982)
Disallowed expenses	(9,500)	23,209
Capital gains	(197,401)	2,097
Adjustment in respect of prior years	230,523	-
Actual tax charge	472,941	149,647

22. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

(a) Overview:

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

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

The principal types of policy written by the company are:
Motor insurance
Property insurance
Liability 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 risks. These methods include internal risk measurement, portfolio modeling and scenario analyses.

Underwriting strategy:
Insurance companies assume risk through the insurance contracts they underwrite and the exposures are associated with both the perils covered by the specific line of insurance and the specific processes associated with the conduct of the insurance business. The company manages the individual risk through its Underwriting Risk Management Policy to determine the insurability of risks and exposure to large claims. The company follows detailed, uniform underwriting practices and procedures designed to properly assess and quantify risks before issuing coverage. The company's underwriting guidelines also outline acceptance limits and the appropriate levels of authority for acceptance of risks.

22. Insurance risk management (cont'd)
(a) Overview (cont'd)

Reinsurance strategy:
A comprehensive reinsurance programme is critical to the financial stability of the organisation and a detailed analysis of the company's exposures, reinsurance needs and quality of reinsurance securities is conducted by the Board and Senior Management.

The company's exposures are continually evaluated by Management to ensure that its reinsurances remain adequate and mechanisms are in place to continually monitor the reinsurance securities to ensure that they maintain "A" rating, in keeping with the company's Board approved Reinsurance Risk Management Policy. Credit risk on reinsurance is discussed in more detail later in note 23.

(b) Terms and conditions of general insurance contracts and associated risks:

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 contacts depend:

Types of Contract	Terms and conditions	Key factors affecting future cash flows
Motor	Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and 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 claims complexity is relatively low.
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. Property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposure is in relation to bodily injury.	The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. Although bodily injury claims have a relatively long tail, the majority of bodily injury claims are settled in full within three to four years. In general, these contracts involve higher estimation uncertainty.

(c) Risk management approach:

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

Property contracts:
The risks relating to property contracts are managed primarily through the pricing and selection 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.

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 research.

22. Insurance risk management (cont'd)
(c) Risk management approach (cont'd)

Risk exposure and concentrations of risk:

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

	2011				
	Liability $'000	Property $'000	Motor $'000	Other $'000	Total $'000
Gross	90,019	34,112	3,297,780	5,239	3,427,150
Net of proportional reinsurance	75,142	33,653	3,208,614	5,239	3,322,648

	2010				
	Liability $'000	Property $'000	Motor $'000	Other $'000	Total $'000
Gross	63,609	31,701	3,268,299	14,006	3,377,615
Net of proportional reinsurance	43,908	21,754	3,158,887	14,006	3,238,555

(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 balance sheet and the estimate of cumulative claims.

Analysis of net claims development:

	Accident year						
	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	Total $'000
Estimate of cumulative claims							
at end of accident year	1,023,268	1,478,059	2,129,576	2,524,853	2,425,881	2,255,275	
-one year later	1,063,820	1,629,301	2,211,175	2,429,711	2,339,583	-	
-two years later	941,175	1,759,460	2,238,318	2,536,118	-	-	
-three years later	985,303	1,688,818	2,316,063	-	-	-	
-four years later	1,010,242	1,755,618	-	-	-	-	
-five years later	1,165,982	-	-	-	-	-	
Estimate of cumulative claims	1,165,982	1,755,618	2,316,063	2,536,118	2,339,583	2,255,275	12,368,639
Cumulative payments to date	990,678	1,618,179	2,059,966	2,131,130	1,599,589	646,449	9,045,991
Net outstanding claims liabilities	175,304	137,439	256,097	404,988	739,994	1,608,826	3,322,648

23. Financial risk management
The company has exposure to the following financial risks from its use of financial instruments and its insurance contracts:
Credit risk
Liquidity risk
Market risks

Risk management framework:
The Board of Directors has overall responsibility for the establishment and oversight of the company's financial risk management framework. The Board has established the Audit and Compliance, Conduct, and Investment committees, which are responsible for developing and monitoring the company's financial risk management policies. These committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. 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 limits. 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 and investment contracts. The goal of the investment management process is to optimise the net of taxes, risk-adjusted investment income and risk-adjusted total returned 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 execution of the financial risk management policies. These policies detail 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 required in terms of insurance. These estimates are re-evaluated on a regular basis. There are also criteria for ensuring the matching of assets and liabilities as investment markets change.

(a) Credit risk:
Credit risk is the risk of financial loss to the company if a counterparty fails to meet its contractual obligations.

The company's key areas of exposure to credit risk include:
- debt securities, and cash and cash equivalents;
- amounts due from policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers in respect of payments already made to policy holders.

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

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

23. Financial risk management (cont'd)
(a) Credit risk (cont'd)
Management of credit risk (cont'd)
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.

(i) Overall exposure to credit risk:
Credit rating is not publicly available for any assets with credit risk except for reinsurance assets. The following table analyses the credit rating by investment grade of reinsurance assets bearing credit risk:

	2011		
	A- to AA* $'000	Not rated $'000	Total $'000
Financial assets:			
Cash and cash equivalents	-	3,702,645	3,702,645
Other	-	2,634,446	2,634,446
	-	6,337,091	6,337,091
Reinsurance assets (excluding unearned premium reserve)	104,502	-	104,502
Insurance and other receivables (excluding prepayments):			
Neither past due nor impaired	-	135,510	135,510
Past due but not impaired	-	167,160	167,160
Individually impaired	-	96,520	96,520
Gross amount allowed for specific impairment	-	(52,083)	(52,083)
	-	347,107	347,107
	104,502	6,684,198	6,788,700

	2010		
	A- to AA* $'000	Not rated $'000	Total $'000
Financial assets:			
Cash and cash equivalents	-	3,162,438	3,162,438
Other	-	2,587,092	2,587,092
	-	5,749,530	5,749,530
Reinsurance assets (excluding unearned premium reserve)	139,060	-	139,060
Insurance and other receivables (excluding prepayments):			
Neither past due nor impaired	6,463	194,110	200,573
Past due but not impaired	-	54,446	54,446
Individually impaired	-	117,886	117,886
Gross amount allowed for specific impairment	-	(89,060)	(89,060)
	6,463	277,382	283,845
	145,523	6,026,912	6,172,435

* The split between A- to A+ and AA is not available.
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 be 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 quality for offset).

(ii) Concentrations of credit risk:
The specific concentration of risk from counterparties where premium receivables for any one counterparty or group of connected counterparties is 10% or more of premium receivables at the year end is as follows:

	2011 $'000	2010 $'000
Covenant Insurance Brokers	39,267	-
Jamaica Citadel Insurance Brokers	37,588	31,388
Riveria Insurance Agency	47,874	33,328
	124,729	64,716

(iii) Assets that are past due:
The company has insurance and other receivables that are past due but not impaired at the reporting date (as indicated by the overall credit risk exposure analysis). Management believes that impairment allowances for these receivables is not appropriate on the basis of stage of collection of amounts owed to the company. An age analysis of the carrying amounts of these insurance and other receivables is presented below.

23. Financial risk management (cont'd)
(iii) Assets that are past due (cont'd)

	60-90 day $'000	More than 90 days $'000	Total $'000
		2011	
Receivable arising from insurance and reinsurance contracts			
- agents, brokers and intermediates	167,160	-	167,160
		2010	
Receivable arising from insurance and reinsurance contracts			
- agents, brokers and intermediate	54,446	-	54,446

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

	2011 Gross $'000	2011 Net $'000	2010 Gross $'000	2010 Net $'000
Insurance and other receivables	96,520	44,437	117,886	28,826

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

(b) Liquidity risk:
Liquidity risk is the 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 exposure 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.

Exposure to liquidity risk:
The company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An analysis of the contractual maturities of the company's financial and insurance contract liabilities is presented below. The analysis provided is by estimating the timing of the amounts recognized in the statement of financial position.

	Carrying amount $'000	2011 Contractual undiscounted cash flows: Total cash outflow $'000	Less than a year & 1 year to 10 years $'000
Financial liabilities:			
- Claims outstanding	3,427,150	3,427,150	3,427,150*
- Accounts payable & accrued charges	256,745	256,745	256,745
- Insurance payables	57,590	57,590	57,590
Total financial liabilities	3,741,485	3,741,485	3,741,485

	Carrying amount $'000	2010 Contractual undiscounted cash flows: Total cash outflow $'000	Less than a year & 1 year to 10 years $'000
Financial liabilities:			
- Claims outstanding	3,377,615	3,377,615	3,377,615*
- Accounts payable & accrued charges	131,992	131,992	131,992
- Insurance payables	116,372	116,372	116,372
Total financial liabilities	3,625,979	3,625,979	3,625,979

* The split between less than a year, 1-2 years, 2-5 years and 5-10 years is not available.

(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.

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.

23. Financial risk management (cont'd)
(c) Market risk (cont'd)

Management of market risks
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.

Interest rate risk
Interest rate risk arises primarily from the company's investments. However, changes in investment values attributable to interest rate changes are mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

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 investments, which have been contracted at fixed and floating interest rates for the duration of the term.

The nature of the company's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior period. At the reporting date, the interest profile of the company's interest-bearing financial instruments was:

	Carrying amount 2011 $'000	Carrying amount 2010 $'000
Fixed rate financial asset	5,555,456	4,324,271

Fair value sensitivity analysis for fixed rate instruments:

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

Cash flow sensitivity:
A change of 2.5% in interest rates would have increased or decreased equity by $138,886,000 (2010: $108,107,000), assuming short term fixed rate instruments are re-priced at maturity.

Equity price risk sensitivity:
All the company's quoted investments are listed on the Jamaica Stock Exchange. A 20% increase in the unit prices of the company's equity holding would have increased equity by $69,514,000 (2010: $193,824,000). A 20% decline would have had an equal but opposite effect on equity.

At December 31, 2011, the company held 89% of its investments in quoted shares in common shares of National Commercial Bank Jamaica Limited, totalling 11,430,043 (2010: 44,430,043) valued at $310,897,000 (2010: $821,955,796).

Foreign currency risk:
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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. The principal foreign currency risk of the company is denominated in United States dollars (US$). At December 30, 2011, net foreign currency assets aggregated approximately US$1,295,646 (2010: US$3,231,031). Exchange rates for the US dollar in terms of Jamaica dollars were as follows:

At December 31, 2011: JA$86.06 to US$1.00
At December 31, 2010: JA$85.34 to US$1.00

Sensitivity analysis:

Movement of J$ against the United States dollar	Increase/(decrease) in profit before taxation 2011 $'000	Increase/(decrease) in profit before taxation 2010 $'000
1% (2010:10%) weakening	1,108	27,574
2% (2010:2%) strengthening	(2,215)	(5,515)

(d) Operational risks:
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 the company.

Capital risk management
Capital risk is the risk that the company's capital can become inadequate to allow it to continue as a going concern. The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulator, to avoid the possible suspension or loss of its insurance licence (see note 2);
- To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

23. Financial risk management (cont'd)
(d) Operational risks (cont'd)
Capital risk management (cont'd)

General insurers must maintain at least a minimum level of assets, capital and surplus to meet the liabilities of the company. The regulator requires the ratio of available assets to required assets to be 200% under the terms of the Minimum Capital Test (MCT). At December 31, 2011 the MCT ratio was 248.95%.

24. Fair value of financial instruments
Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	2011		2010	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets	6,684,198	6,699,517	6,033,375	6,034,913
Financial liabilities	3,772,150	3,772,150	3,625,979	3,625,979

Fair value amounts represent estimates of the arm's-length consideration that would currently be agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of these instruments have been determined using a generally accepted alternative method.

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

Level 1 Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on exchanges.
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is various local brokers.
Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

	2011			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Available for sale financial assets	347,570	2,016,613	417	2,364,600

	2010			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Available for sale financial assets	969,120	1,244,461	43,162	2,256,743

25. Dividends paid
This represents an interim dividend declared at $0.16 per share.

26. Tax provision
In February 2008, the company received an income tax assessment for year of assessment 2003 from the Commissioner, Taxpayer Audit and Assessment Department ("CTAAD") totaling $26,562,252. This assessment is based on taxable profits that were offset by tax losses brought forward from 2000 amounting to $692,182,606 arising from the change in accounting policy in respect of the method of calculating the claims reserves (liabilities) which was adopted by the company as required. The CTAAD has disallowed the tax losses brought forward.

The company appealed the assessment, after consulting its legal and accounting advisors, on the basis that the change in accounting policy arose from the enactment of the Insurance Act in 2001 which mandated the use of an actuary to calculate the claims reserves. The applicable accounting standards required that the company restated its prior year financial statements in accounting for the additional provisions, which arose from the new method of calculating the claims reserves.

The company's appeal was dismissed by the Commissioner, Taxpayer Appeals Department ("CTAD") in September 2008. A subsequent appeal was also denied by the Revenue Court in November 2011.

In consultation with our attorneys, the company has since filed to the Court of Appeal, an appeal to the ruling on the grounds that there is insufficient basis in law for the assessment.

Notwithstanding the above, the company has made a provision for the tax exposure having regard to the recent rulings by the CTAAD and the Revenue Court, as follows:

	2011 $'000
Income tax charge for year of assessment 2003 arising from disallowed losses in 2000	26,562
Tax impact in on disallowed losses bought forward	203,961
	230,523

27. Subsequent event
At an extraordinary general meeting of the company held on February 21, 2012, the shareholders approved the following actions in respect of the capital structure of the company, in preparation for a proposed public offer of shares in 2012:

- The consolidation of the authorized and issued shares in a ratio of 6 existing shares to 1 new share; and
- The increase of the authorized share capital by 45,000,000 shares.