# Canopy Insurance Limited

## Financial Statements
## 31 December 2019

MERLINOS actuaries consultants

## REPORT OF THE APPOINTED ACTUARY

I have examined the financial condition and valued the unpaid claims liabilities of Canopy Insurance Limited for its balance sheet at December 31, 2019 and the corresponding change in policy liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to life insurance companies in Jamaica. (I have relied on data provided by Canopy's management)

In my opinion:

i. the methods and procedures used in the verification of the valuation data are sufficient and reliable and fulfill the acceptable standards of care;
ii. the valuation of actuarial and other policy liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Commission;
iii. the methods and assumptions used to calculate the actuarial and other policy benefit liabilities are appropriate to the circumstances of the company and of said policies and claims;
iv. the amount of the unpaid claims, represented in the balance sheet of Canopy Insurance Limited makes proper provision for the future payments under the companies policies and meet the requirements of the Insurance Act and other appropriate regulations of Jamaica;
v. a proper charge on account of these liabilities has been made in the statement of operations;
vi. there is sufficient capital available to meet the solvency standards as established by the Commission.

M J Berman

Michael J. Berman, FSA, MAAA
Principal & Consulting Actuary
20/04/2020

## Independent auditor's report

To the Members of Canopy Insurance Limited

## 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 Canopy Insurance Limited (the Company) as at 31 December 2019, and of its financial performance and its cash flows for the twenty-two months then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

#### *What we have audited*

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the twenty-two months then ended;
- the statement of changes in shareholder's equity for the twenty-two months then ended;
- the statement of cash flows for the twenty-two months 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.

### 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.

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L.A. McKnight P.E. Williams B.L. Scott B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore T.N. Smith DaSilva K.D. Powell

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.

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## 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
21 April 2020
Kingston, Jamaica

# Canopy Insurance Limited

Statement of Comprehensive Income

**Twenty-two months ended 31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated

| | Note | 2019 $'000 |
|---|---|---|
| **Gross Premiums Written** | | 93,002 |
| Reinsurance ceded | | (5,059) |
| Net premiums written | | 87,943 |
| Change in insurance reserves | | (28,353) |
| Commission on premiums written | | (8,435) |
| Claims expense | | (38,438) |
| Administration and other expenses | 8 | (275,341) |
| **Underwriting Loss** | | (262,624) |
| Investment income | 10 | 8,421 |
| Other income | 11 | 8,945 |
| **Loss before Taxation** | | (245,258) |
| Taxation | 12 | 47,859 |
| **Net Loss** | | (197,399) |

# Canopy Insurance Limited
Statement of Financial Position
**31 December 2019**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2019 $'000 |
|---|---|---|
| **ASSETS** | | |
| Cash and deposits | 13 | 270,123 |
| Investment securities | 14 | 50,056 |
| Due from policyholders, brokers and agents | 15 | 34,299 |
| Other receivables | 17 | 16,680 |
| Taxation recoverable | | 1,821 |
| Deferred tax asset | 22 | 47,859 |
| Intangible assets | 19 | 26,087 |
| Property, plant and equipment | 20 | 47,154 |
| | | 494,079 |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Other payables | 21 | 39,273 |
| Due to reinsurers | | 3,729 |
| Due to group companies | | 97,985 |
| Lease liability | 25 | 22,139 |
| Insurance reserves | 23 | 28,352 |
| | | 191,478 |
| **Equity** | | |
| Share capital | 24 | 500,000 |
| Retained earnings | | (197,399) |
| | | 302,601 |
| | | 494,079 |

**Approved for issue on behalf of the Board of Directors on 21 April 2020 and signed on its behalf by:**

Don Wehby Chairman

Sean Scott Managing Director

# Canopy Insurance Limited

Statement of Changes in Equity

**Twenty-two months ended 31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated)

| | Share Capital $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|
| Issue of shares | 500,000 | - | 500,000 |
| Loss for the period | - | (197,399) | (197,399) |
| **Balance at 31 December 2019** | 500,000 | (197,399) | 302,601 |

# Canopy Insurance Limited
Statement of Cash Flows
**Twenty-two months ended 31 December 2019**
(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2019 $'000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net loss | | (197,399) |
| Adjustments for: | | |
| Amortisation and depreciation | 19, 20 | 21,542 |
| Loss on sale of property, plant and equipment | | 3,913 |
| Loss on foreign exchange | | (158) |
| Interest income | 10 | (8,421) |
| Taxation | | (47,859) |
| | | (228,383) |
| Changes in operating assets and liabilities | | |
| Due from policyholders, brokers and agents | | (34,299) |
| Insurance reserves | | 28,352 |
| Due to reinsurers | | 3,729 |
| Other assets | | (20,298) |
| Other liabilities | | 161,193 |
| Net cash used in operating activities | | (89,706) |
| **Cash Flows from Investing Activities** | | |
| Acquisition of property, plant and equipment | 20 | (264,611) |
| Acquisition of intangible asset | 19 | (36,892) |
| Proceeds on disposal of property, plant and equipment | | 202,808 |
| Purchase of investments | | (50,056) |
| Interest received | | 8,579 |
| Net cash used in investing activities | | (140,171) |
| **Cash Flow from Financing Activity** | | |
| Proceeds from issue of shares | | 500,000 |
| Net cash provided by investing activity | | 500,000 |
| **Cash and Cash Equivalents at the End of the Year** | | 270,123 |

**1. Identification and Activities**

(a) Canopy Insurance Limited (the company) is registered and domiciled in Jamaica. Its registered office is located at 58 Half Way Tree Road Kingston 10, Jamaica. The company is a joint venture of GraceKennedy Limited and Musson Jamaica Limited, who are both registered and domiciled in Jamaica.

(b) The company is licensed to operate as an ordinary long term insurer in Jamaica, under the Insurance Act, 2001. Its principal activity is the underwriting of group health and group life insurance.

**2. Significant Accounting Policies**

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 have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The company upon incorporation adopted all existing and new IFRSs that are relevant to its business.

***Accounting pronouncements effective in current period which are relevant to the company's operations***

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that the following are relevant to its operations:

**IFRS 9, 'Financial instruments', (effective for annual periods beginning on or after 1 January 2018).** This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

IFRS 9 has three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). Classification under IFRS 9 for debt instruments is based on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ('SPPI').
An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity. That is, an entity's business model determines whether the cash flows will result from collecting contractual cash flows, selling financial assets or both.

If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect assets' contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVPL is the residual category - financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost.

## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

***Accounting pronouncements effective in current period which are relevant to the company's operations (continued)***

IFRS 9, 'Financial instruments', (effective for annual periods beginning on or after 1 January 2018) (continued)

IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in IAS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis. In practice, the new rules mean that entities will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). IFRS 9 contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment loss and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Details of the new accounting policy in relation to IFRS 9 are outlined in Note 2 (c).

**Amendment to IFRS 9, 'Financial Instruments on prepayment features with negative compensation'** (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. There was no impact from the adoption of this amendment.

**IFRS 15, 'Revenue from Contracts with Customers', effective for the periods beginning on or after 1 July 2018).** The company adopted IFRS 15. This standard clarifies revenue recognition principles and provides a framework for recognising revenue and cash flows from service contracts from customers. IFRS 15 does not apply to the company's primary activities.

In accordance with the transition loss allowances in IFRS 15, the standard has been implemented using the modified retrospective method with no restatement of comparative information. There was no significant impact on the company resulting from the implementation of the standard.

## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

***Accounting pronouncements effective in current period which are relevant to the company's operations (continued)***

**IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019).** This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces the guidance in IAS 17, which made a distinction in classification between leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset (finance leases) and those that do not (operating leases). For a lessee, finance leases were recognised as an asset that was depreciated over the lease term and the amount due to the lessor recognised as borrowings; while operating leases were recognised as a periodic rental payment that was treated as a current expense in the statement of comprehensive income.

IFRS 16 introduces a single lease accounting model for lessees. It requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets. For lessors, the accounting stays almost the same.

Details of the accounting policy in relation to IFRS 16 are outlined in Note 2 (h) and the impact on the financial statements standard is disclosed in Note 25.

**IFRIC 23, 'Uncertainty over income tax treatments',** (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. There was no impact from the adoption of this amendment.

**Annual improvements to IFRS 2015 - 2018 Cycle – Amendments to IAS 12 and IAS 23** (effective for annual periods beginning on or after 1 January 2019). The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The company does not expect any significant impact from the adoption of these amendments.

## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

***Accounting pronouncements effective in 2020 and beyond which are relevant to the company's operations (continued)***

**IFRS 17, 'Insurance contracts'**, (effective for annual periods beginning on or after 1 January 2021). IFRS 17 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. The standard requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of discounted probability – weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

**Amendments to IAS 1 and IAS 8 on the definition of material** effective annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The company does not expect any significant impact from the adoption of these amendments.

**Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform** effective annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.

The company has concluded that all other standards, interpretations and amendments to existing standards, which are published but not yet effective are either relevant to its operations but will have no material impact on adoption; or are not relevant to its operations and will therefore have no impact on adoption; or contain inconsequential clarifications that will have no material impact when they come into effect. This includes amendments resulting from the IASB's ongoing 'Improvements to IFRS' project. The company does not expect any significant impact from the adoption of these amendments.

**2. Significant Accounting Policies (Continued)**

**(b) Foreign currency translation**

***Functional and presentation currency***

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Jamaican dollars, which is also the company's functional currency.

***Translations and balances***

Foreign currency balances outstanding at the statement of financial position date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies during the year are converted at the rates of exchange ruling on the dates of those transactions. Gains and losses arising 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 recognised in profit or loss in the statement of comprehensive income.

**(c) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity. Financial instruments on the statement of financial position include cash and cash deposits, premium receivables, other receivables and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The determination of the fair values of the company's financial instruments is disclosed in Note 3(b).

**Financial assets**

*Premium receivables*

Premium receivables are due from contract holders and are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The company holds the premium receivables with the objective to collect the contractual cash flows. The cash flows of the company's premium receivables are solely payments of principal and interest (SPPI). Subsequent to initial recognition at fair value, the company measures premium receivables at amortised cost using the effective interest method.

*Other financial assets at amortised cost*

The company classifies its other financial assets as at amortised cost only if both the asset is held within a business model the objective of which is to collect the contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Other financial assets at amortised cost include investment securities, cash and bank balances, balances due from related parties and other receivables.

*Impairment*

The company's premium receivables and other financial assets at amortised cost are subject to the expected credit loss model in determination of impairment. The company applies the IFRS 9 simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all premium receivables. To measure the ECL, premium receivables have been grouped based on shared credit risk characteristics and the days past due.

## 2. Significant Accounting Policies (Continued)

### (c) Financial instruments (continued)

The expected loss rates are based on the payment profiles for services provided over a period of 3 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The company has identified the GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Premium receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the company, and a failure to make contractual payments for a period of greater than 60 days past due. Expected credit losses on premium receivables are presented as net impairment losses within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

The company has applied the 'general model' as required under IFRS 9 to investment securities. Under this model, the company is required to assess on a forward-looking basis the ECL associated with its debt investments. The ECL is recognised in profit or loss before a loss event has occurred.

ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

- *Stage 1* – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL is computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

- *Stage 2* – When a financial asset experiences a significant increase in credit risk subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

- *Stage 3* – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

**Financial liabilities**

The company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the reporting date, payables were classified as financial liabilities.

The fair value of the company's financial instruments is discussed in Note 6.

# Canopy Insurance Limited
Notes to the Financial Statements
**31 December 2019**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (d) Reinsurance ceded
The company cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses, loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the statement of financial position unless the right of offset exists.

### (e) Property, plant and equipment
All property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis by reference to costs, at rates estimated to write off the relevant assets, net of estimated salvage value, over their estimated useful lives.

Annual depreciation rates are as follows:

| | |
|---|---|
| Buildings | 1 1/2 % |
| Computer equipment | 33 1/3 % |
| Motor vehicles | 20 % |
| Furniture and fixtures | 10 % |
| Leasehold improvements | 10 % |

Land is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

# Canopy Insurance Limited
Notes to the Financial Statements
**31 December 2019**
(expressed in Jamaican dollars unless otherwise indicated)

**2. Significant Accounting Policies (Continued)**

**(f) Intangible assets**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives of between three to five years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

**(g) Impairment of long-lived assets**

Property, plant and equipment and other long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

**(h) Leases**

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on the present value basis.

**(i) Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when reimbursement is virtually certain.

**(j) Payables**

These amounts are recognised at fair value and subsequently measured at amortised cost.

**(k) Insurance reserves**

Under the Insurance Regulations, 2001, the company is required to actuarially value its insurance reserves annually. Consequently, the claims incurred but not reported and the provision for adverse deviation have been independently actuarially determined. The actuary also reviews management's estimate of the claims outstanding.

# Canopy Insurance Limited
Notes to the Financial Statements
**31 December 2019**
(expressed in Jamaican dollars unless otherwise indicated)

## 2. Significant Accounting Policies (Continued)

### (k) Insurance reserves (continued)

***Claims outstanding***
A provision is made to cover the estimated cost of settling claims arising out of events, which occurred by the year end less amounts already paid in respect of those claims. The provision is estimated by management on the basis of claims admitted and intimated.

***Claims incurred but not reported (IBNR)***
The reserve for IBNR claims has been calculated by an independent actuary in adherence with the relevant provisions of the insurance regulations

### (l) Income taxes
Taxation for the period comprises deferred tax. Tax is recognised in profit or loss in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In those cases, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax charges are based on the taxable profits for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at rates that have been enacted at the statement of financial position date.

## 2. Significant Accounting Policies (Continued)

### (m) Income taxes (continued)

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### (n) Employee benefits

***Pension obligations***

The company participates in a defined contribution plan which is funded by payments from employees and the company to a trustee-administered fund.

The defined contribution plan is a pension plan under which the company pays fixed contributions into a separate fund. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The contributions paid by the company are charged to profit or loss in the period to which they relate.

***Termination benefits***

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

### (o) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the company's activities. Revenue is shown net of General Consumption Tax and is recognised as follows:

***Sale of insurance services***

Gross premiums written represent amounts invoiced for insurance contracts that have been accepted by the company during the year. They are recognised on a pro-rata basis over the life of the policies written. The company uses reinsurance contracts to manage the risk associated with these insurance policies. Reinsurance ceded represent amounts contracted to reinsurers during the year with respect to reinsurance contracts entered into by the company. Reinsurance premiums ceded are deducted from gross premiums written and are recognized on the same basis as gross written premium.

**2. Significant Accounting Policies (Continued)**

**(p) Revenue recognition (continued)**

***Interest income***
Interest income is recognised in the profit or loss in the statement of comprehensive income for all interest bearing instruments, using the effective yield method.

***Rental Income***
Rental income is recognised on an accrual basis.

**(q) Taxation recoverable**
Taxation recoverable represents tax withheld from interest earned on investments net of income tax liability.

**3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Critical judgements in applying the company's accounting policies**
In the process of applying the company's accounting policies, management has made no judgements which it believes present a significant risk of material misstatement to the amounts recognised in the financial statements.

**(b) Key sources of estimation uncertainty**
The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Estimates of claims liabilities***
The determination of the liabilities under insurance contracts represents the liability for future claims payable by the company based on contracts for the insurance business in force at the balance sheet date. These liabilities represent the amount of future payments that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the company's experience.

***Income taxes***
Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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## 4. Insurance and Financial Risk Management

The company's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

The company's risk management practices are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management practices and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board has established committees and departments, for managing and monitoring risks, as follows:

(i) Finance Department

This department is responsible for managing the company's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the company.

(ii) Audit Committee

The Audit Committee oversees how the company's management monitors compliance with risk management procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company.

## 4. Insurance and Financial Risk Management (Continued)

The most significant types of risk faced by the company are insurance risk, credit risk, liquidity risk and market risk and other operational risk. Market risk includes currency risk and interest rate risk.

The company issues contracts that transfer insurance risk. This section summarises the risk and the way the company manages the risk.

### (a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar contracts, the smaller will be the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Claims payment limits are always included to cap the amount payable on occurrence of the insured event.

**4. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk (continued)**

Claims on insurance contracts are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract and are reported within the time stated in the policy.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts is reflected in a provision for IBNR.

In calculating the estimated cost of unpaid claims the company uses estimation techniques that are a combination of loss-ratio based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is available.

**4. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk (continued)**

Management sets policy and retention limits. The maximum policy limit and maximum net retention of any one risk for each class of insurance for the year are as follows:

| | 2019 | |
|---|---|---|
| | Policy Limit '000 | Maximum Net Retention '000 |
| Group Health | 10,500 | 10,500 |
| Group Life | 92,000 | 2,000 |

***Development Claim Liabilities***

A loss ratio approach was utilized to estimate unpaid claims liabilities at year-end. This approach required professional judgement and approval by the company's actuary to evaluate the ultimate loss ratios by line of business and incurred month. Provision for claims liabilities were estimated to be the difference between the ultimate loss ratio and the claims paid for the reporting period.

**4. Insurance and Financial Risk Management (Continued)**

**(a) Insurance risk (continued)**

**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.

| | $'000 |
|---|---|
| Claims Unpaid Group Health | 25,702 |
| Claims Unpaid Group Life | 1,722 |
| Claims Adjustment Expenses | 928 |
| | 28,352 |

**(b) Reinsurance risk**

To limit its exposure of potential loss on an insurance policy, the company may cede certain levels of risk to a reinsurer. The company selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored. Reinsurance arrangements are made in order limit the financial exposure that may arise from claims and also to stabilize the company's loss ratios.

For Group Life and Accidental Death and Dismemberment (AD&D), the company employs a reinsurance treaty under which sums insured over $2,000,000 on each risk are ceded to the reinsurer. If there is a claim on such a risk, the reinsurer will pay any portion of the loss over $2,000,000 up to the agreed maximum.

For Group Health Overseas Emergency Management Services (OEMS), the company employs a reinsurance treaty to cede losses above US$2,000 per covered person per contract year.

The reinsurers liability cannot exceed the maximum benefit payable by Canopy under the reinsured policies.

# Canopy Insurance Limited
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**4. Insurance and Financial Risk Management (Continued)**

**(b) Reinsurance risk (continued)**

The company insures with Munich Re and Swiss Re. The entities financial strength ratings are as follows:

| | Ratings |
|---|---|
| Munich Re | AA- |
| Swiss Re | AA- |

**(c) Financial risk**

The company is exposed to financial risk through its financial assets and liabilities, including its reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, market risk, liquidity risk, currency risk and credit risk.

**(i) Credit risk**
The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is one of the most important risks for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers and investment activities.

***Credit review process***
Management of the company regularly assesses the ability of customers, brokers and other counterparties to meet repayment obligations.

(i) Reinsurance
Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered prior to finalization of any contract.

Management assesses the creditworthiness of the approved reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(ii) Premium and other receivables
Management utilizes periodic reports to assist in monitoring any premiums that are overdue. Where necessary, cancellation of policies will be effected for amounts deemed uncollectible.

(iii) Investments, bank and deposit balances
The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality. Accordingly, management does not expect any counterparty to fail to meet its obligations. These financial assets were considered stage 1 at the reporting date.

## 4. Insurance and Financial Risk Management (Continued)

### (c) Financial risk (continued)

#### (i) Credit risk (continued)

*Aged analysis of premium receivables past due but not impaired*

Premium receivables that are less than two months past due are not considered impaired. The following premium receivables were past due but not impaired and relate to a number of customers for whom there is no recent history of default. The aged analysis of these receivables is as follows:

| | 2019<br>$'000 |
|---|---|
| 0 to 30 days | 32 |
| 31 to 60 days | 12 |
| | 44 |

*Premium receivables*
The credit exposure for premium receivables is $34,298,561. Movement in allowance for doubtful debts is as follows:

| | 2019<br>$'000 |
|---|---|
| Balance at beginning of period | - |
| Provision for the period | 352 |
| Balance at end of period | 352 |

*Debt securities*

The credit exposure for debt securities at their carrying amounts, is $50,056,427 and is entirely comprised of corporate bonds.

The maximum credit exposure arising from the company's other financial assets equals their carrying amounts on the statement of financial position.

# Canopy Insurance Limited



## 4. Insurance and Financial Risk Management (Continued)

### (c) Financial risk (continued)

#### (ii) Liquidity risk

Liquidity risk is the risk that the company may be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to fulfill claims and other liabilities incurred.

**Liquidity risk management process**

The company's liquidity management process, as carried out within the company and monitored by the Finance Department, includes:

(i) Monitoring future cash flows and liquidity on an on-going basis;

(ii) Maintaining a portfolio of assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Optimizing cash returns on investment;

(iv) Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

(v) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections monthly. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the company. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

# Canopy Insurance Limited
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**4. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(ii) Liquidity risk (continued)**

*Financial assets and liabilities cash flows*

The table below presents the undiscounted cash flows of the company's financial assets and liabilities as well as the company's insurance assets and liabilities at the balance sheet date, based on contractual repayment obligations.

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 Month $'000 | 1 to 3 Months $'000 | 3 to 12 Months $'000 | 1 to 5 Years $'000 | Over 5 Years $'000 | Total $'000 |
| **Financial Assets** | | | | | | |
| Cash and deposits | 270,123 | - | - | - | - | 270,123 |
| Investment securities | - | 19,677 | 15,092 | 15,287 | - | 50,056 |
| Due from policyholders, brokers and agents | 34,299 | - | - | - | - | 34,299 |
| Other receivables | 358 | 6,436 | | 2,678 | - | 9,472 |
| | 304,780 | 26,113 | 15,092 | 17,965 | - | 363,950 |
| **Financial Liabilities** | | | | | | |
| Other payables | 9,759 | 25,376 | 2,708 | - | - | 39,273 |
| Due to reinsurers | - | 3,729 | - | - | - | 3,729 |
| Due to group companies | - | 57,645 | 9,159 | 28,008 | 3,173 | 97,985 |
| Lease liability | 499 | 1,513 | 4,660 | 15,467 | | 22,139 |
| Insurance reserves | 11,025 | 17,327 | - | - | - | 28,352 |
| | 21,283 | 105,590 | 16,527 | 43,475 | 3,173 | 191,478 |
| **Liquidity gap** | 283,497 | (79,477) | (1,435) | (25,510) | (3,173) | 173,902 |

Assets available to meet all of the liabilities and to cover financial liabilities include cash and short term deposits, and investment securities. The company is also able to meet unexpected net cash outflows by accessing additional funding sources from other financial institutions.

# Canopy Insurance Limited
Notes to the Financial Statements
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**4. Insurance and Financial Risk Management (Continued)**

**(c) Financial risk (continued)**

**(iii) Market risk**

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Finance Department which monitors the price movement of financial assets on the local market.

***Currency risk***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The company further manages this risk by maximizing foreign currency earnings from its investments and holding foreign currency balances.

The company also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The company ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

*Concentrations of currency risk*

The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2019 all of which is denominated in US$.

| | **Total** |
|---|---|
| | **J$'000** |
| **Financial Assets** | |
| Cash and deposits | 558 |
| Investment securities | 19,677 |
| Total financial assets | 20,235 |
| **Financial Liabilities** | |
| Other payables | 3,628 |
| Due to group companies | 57,832 |
| Lease liability | 22,139 |
| Total financial liabilities | 83,599 |
| Net financial position | (63,364) |

## 4. Insurance and Financial Risk Management (Continued)

### (c) Financial risk (continued)

#### (iii) Market risk (continued)

*Foreign currency sensitivity*

The following table indicates the currency to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a revaluation of 4% and devaluation of 6% in foreign currency rates. The sensitivity analysis includes cash and short term investments, investment securities and US-dollar denominated liabilities.

| | Change in Currency Rate % | Effect on Profit before Taxation $'000 |
|---|---|---|
| | 2019 | |
| **United States Dollar** | | |
| Revaluation of JMD | 4% | 2,535 |
| Devaluation of JMD | 6% | (3,802) |

## 5. Capital Management

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

(a) To comply with the capital requirements set by the regulators, the FSC;

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

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

Capital adequacy is managed and monitored by the company's management. The relevant capital requirement is the Minimum Continuing Capital Surplus Ratio (MCCSR). It is calculated by the Financial Controller, reviewed by the Managing Director and certified by the Appointed Actuary. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

The company met the FSC regulatory capital requirements as at 31 December 2019.

## 6. Fair Value Estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where no market price is available, the fair values presented have been estimated using present values or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within twelve months is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.

(ii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts.

As at 31 December 2019, the company's financial assets were measured at amortised cost.

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## 7. Responsibilities of the Appointed Actuary and Independent Auditors

The Board of Directors, pursuant to the Insurance Act appoints the Actuary, whose responsibility is to carry out an annual valuation of the company's outstanding claims in accordance with accepted actuarial practice and regulatory requirements and report thereon to the shareholders. In performing the valuation, the Actuary analyses past experience with respect to number of claims, claims payments and changes in estimates of outstanding liabilities.

The shareholders, pursuant to the Companies Act, appoint the Independent Auditors. The auditor's responsibility is to conduct an independent and objective audit of the financial statements 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 appointed Actuary and the Actuary's report on outstanding claims.

## 8. Expenses by Nature

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Advertising | 8,947 |
| Amortisation and depreciation | 21,541 |
| Auditor's remuneration | 4,700 |
| Bank charges and interest | 3,083 |
| Directors fees | 1,430 |
| Legal and professional fees | 13,944 |
| Facilities and office expenses | 9,302 |
| Management fees | 105,215 |
| Other expenses | 5,248 |
| Staff costs (Note 9) | 49,407 |
| Startup cost | 43,251 |
| Underwriting expenses | 9,273 |
| | 275,341 |

# Canopy Insurance Limited
Notes to the Financial Statements
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## 9. Staff Costs

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Wages and salaries | 39,827 |
| Payroll taxes – employer's portion | 3,932 |
| Pension costs – defined contribution | 179 |
| Other staff costs | 5,469 |
| | 49,407 |

## 10. Investment Income

Investment income of $8,421,000 is solely comprised of interest income.

## 11. Other Income

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Rental income | 7,930 |
| Net foreign exchange loss | 158 |
| Loss on sale of property, plant and equipment | (3,913) |
| Transfer tax recovery | 4,600 |
| Fees | 170 |
| | 8,945 |

## 12. Taxation

Taxation is based on the result for the year adjusted for taxation purposes and represents income tax at 25%:

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Current year taxation charge | - |
| Deferred tax credit (Note 22) | (47,859) |
| | (47,859) |

## 12. Taxation (Continued)

Subject to agreement with Tax Administration Jamaica, the company has losses available for offset against future taxable profits of approximately $190,628,000 which may be carried forward indefinitely.

The tax on the company's profit differs from the threshold amount that would arise using the tax rate of 25% as follows:

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Loss before taxation | (245,258) |
| Tax calculated at a rate of 25% | (61,314) |
| Adjusted for the effects of: | |
| Income not subject to tax | (1,150) |
| Expenses not deductible for tax purposes | 11,178 |
| Net effect of other charges and allowance | 3,427 |
| Tax charge | (47,859) |

## 13. Cash and Deposits

| | 2019 $'000 |
|---|---|
| Cash at bank and in hand | 21,274 |
| Short-term deposits (Including repurchase agreements) | 248,849 |
| Cash and deposits | 270,123 |

Short term deposits include a balance of $92,183,317 which has been pledged with the Regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

The effective weighted average interest rate on deposits, which are all denominated in Jamaican dollars, is 2.4%.

# Canopy Insurance Limited
Notes to the Financial Statements
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## 14. Investment Securities

Investments comprise the following:

| | 2019 $'000 |
|---|---|
| Corporate | 49,677 |
| Interest receivable | 379 |
| | 50,056 |

The current portion of investment securities amounted to $34,618,139.

## 15. Due from Policyholders, Brokers and Agents

| | 2019 $'000 |
|---|---|
| Premiums receivable | 34,651 |
| Less: Provision for impairment | (352) |
| | 34,299 |

Ageing of premiums receivable

| | 2019 $'000 |
|---|---|
| Within 1 month | 34,255 |
| 1-3 months | 44 |
| | 34,299 |

## 16. Due from Reinsurers

Amounts recoverable from reinsurers relate to claims recoverable on IBNR which amount to $3,497,977.

| | 2019 $'000 |
|---|---|
| Gross Claims IBNR | 5,221 |
| Less Net Claims IBNR | (1,723) |
| Due from Reinsurers | 3,498 |

Balances due from reinsurers in relation to claims outstanding are due within 12 months of the reporting date.

# Canopy Insurance Limited
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## 17. Other Receivables

| | 2019 $'000 |
|---|---|
| Prepayments | 7,208 |
| Recovery of staff cost | 6,437 |
| Other | 3,035 |
| | 16,680 |

## 18. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Key management compensation

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Wages and salaries | 25,429 |
| Payroll taxes – employer's portion | 2,526 |
| Pension costs | 219 |
| | 28,174 |

# Canopy Insurance Limited
Notes to the Financial Statements
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**18. Related Party Transactions and Balances (Continued)**

The statement of financial position includes the following balances with group companies:

| | **2019** **$'000** |
|---|---|
| Cash and deposits | |
| Related party | 17,890 |
| Investment securities | |
| Related party | 19,677 |
| Due from policyholders, brokers and agents | |
| Parent | (100) |
| Related party | 21,752 |
| | 21,652 |
| Other payables | |
| Related party | 10,207 |
| Due to group companies | |
| Parent | 97,403 |
| Related party | 583 |
| | 97,986 |

# Canopy Insurance Limited
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**18. Related Party Transactions and Balances (Continued)**

The statement of comprehensive income includes the following transactions with related parties:

| | Twenty-two months ended 31 December 2019 $'000 |
|---|---|
| Gross premiums written | |
| Parent | 4,051 |
| Related party | 74,447 |
| | 80,517 |
| Commission expense | |
| Related party | 7,081 |
| Administration and other expenses | |
| Parent | 105,215 |
| Interest earned | |
| Related party | 2,743 |
| Other income | |
| Parent | 8,100 |
| Directors fees | 1,430 |

**19. Intangible Assets**

| | Computer Software $'000 2019 |
|---|---|
| At Cost - | |
| Additions | 36,892 |
| 31 December 2019 | 36,892 |
| Amortisation - | |
| Amortised for the period | 10,805 |
| At 31 December 2019 | 10,805 |
| Net Book Value - | |
| 31 December 2019 | 26,087 |

# Company Limited
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**20. Property, Plant and Equipment**

| | Land and Buildings $'000 | Leasehold Improvements $'000 | Computer Equipment $'000 | Motor Vehicles $'000 | Furniture and Fixtures $'000 | Capital Work in Progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| | | | | | | | 2019 |
| At Cost/Valuation - | | | | | | | |
| Additions | 208,000 | 2,711 | 6,154 | 14,296 | 3,991 | 3,362 | 238,514 |
| Right of use asset addition | 26,097 | - | - | - | - | - | 26,097 |
| Disposals | (208,000) | - | - | - | - | - | (208,000) |
| At 31 December | 26,097 | 2,711 | 6,154 | 14,296 | 3,991 | 3,362 | 56,611 |
| Depreciation - | | | | | | | |
| Disposal | (1,280) | - | - | - | - | - | (1,280) |
| Charge for the period | 5,630 | 114 | 1,660 | 3,123 | 210 | - | 10,737 |
| At 31 December | 4,350 | 114 | 1,660 | 3,123 | 210 | - | 9,457 |
| Net Book Value - | | | | | | | |
| 31 December | 21,747 | 2,597 | 4,494 | 11,173 | 3,781 | 3,362 | 47,154 |

Included in land and building is office space capitalised as a right of use asset under a lease arrangement. The net amount capitalised was $21,747,278. See Note 25 for more details.

# Company Limited


## 21. Other Payables

| | 2019 $'000 |
|---|---|
| Accrued expenses | 27,193 |
| General consumption tax | 6,560 |
| Premiums prepaid by clients | 5,520 |
| | 39,273 |

## 22. Deferred Taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to setoff current tax assets against current tax liabilities.

The movement in the deferred income tax account is as follows:

| | 2019 $'000 |
|---|---|
| At the beginning of the period | - |
| Deferred tax credited to profit or loss in the statement of comprehensive income (Note 12) | 47,859 |
| At end of period | 47,859 |

The movement in deferred tax assets and liabilities is as follows:

| | Tax Losses $'000 | Accelerated Tax Depreciation $'000 | Lease Liability $'000 | Interest Accrued $'000 | Total $'000 |
|---|---|---|---|---|---|
| Deferred tax credited to profit in the statement of comprehensive income | 47,657 | (5,015) | 5,535 | (318) | 47,859 |
| At 31 December 2019 | 47,657 | (5,015) | 5,535 | (318) | 47,859 |

## 22. Deferred Taxation (Continued)

| | 2019 $'000 |
|---|---|
| Deferred tax liabilities that are expected to be settled after more than 12 months after the year end | (5,015) |
| Deferred tax assets that are expected to be recovered after more than 12 months after the year end | 53,192 |

## 23. Insurance Reserves

| | 2019 $'000 |
|---|---|
| Provision for claims IBNR & UCAE | 28,352 |

| | Gross Liabilities 2019 | Ceded 2019 $'000 | Net Liabilities 2019 $'000 |
|---|---|---|---|
| Provision for claims IBNR | 30,923 | (3,498) | 27,425 |
| Unallocated claim adjustment expenses | 927 | - | 927 |
| | 31,850 | (3,498) | 28,352 |

An actuarial valuation was performed by the company's appointed actuary, Merlinos & Associates, to value the policy and claims liabilities of the company as at 31 December 2019, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles.

**Movement in reserves**

| | 2019 $'000 |
|---|---|
| Provision for claims IBNR, net: | |
| At the beginning of the period | - |
| Current year recognised as part of claims expense – IBNR gross | 31,850 |
| Current year recognised as part of claims expense – IBNR Recoverable | (3,498) |
| At the end of the period | 28,352 |

# Canopy Insurance Limited
Notes to the Financial Statements
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(expressed in Jamaican dollars unless otherwise indicated)

## 24. Share Capital

| | 2019 $'000 |
|---|---|
| Authorised - | |
| Unlimited ordinary shares | |
| Issued and fully paid - | |
| 500,000,000 ordinary shares at no par value | 500,000 |

## 25. Lease Liability

The company leases office space. The lease is for a period of 24 months with an option to renew for an additional 24 months which has been assessed by management as reasonably certain to be exercised.

Assets and liabilities arising from a lease are initially measured on the present basis. Lease liabilities include the net present value of the following lease payments:

Fixed payments

- Lease payments to be made under reasonably certain extension options are also included in the measurement liability.

**25. Lease Liability (Continued)**

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the company's incremental borrowing rate is used, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, such as for term, country, currency and security.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability, and
- Any lease payments made at or before the commencement date less any lease incentives received

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in statement of comprehensive loss.

The lease term is determined as the non-cancellable period of the lease and also takes account of extension and termination options if reasonably certain to be exercised. The extension and termination options held are exercisable only by the company and not by the respective lessor. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the company.

The minimum lease payment for 2019 was $4,986,477.

The future aggregate minimum lease payments under the leases are as follows:

| | **2019** <br> **$'000** |
|---|---|
| Current | 4,986 |
| Non-current | 17,153 |
| | 22,139 |

**26. Subsequent Event**

Subsequent to the end of the financial year, the World Health Organization has declared the corona virus to be a global pandemic. The pandemic has resulted in a significant downturn in commercial activity as there is currently no cure, and the means most recommended to manage contagion is social distancing. Schools have therefore been temporarily closed, entertainment and sporting events which typically generate huge revenues and profits have been either cancelled or suspended, global travel restrictions have been implemented, all of which will have global economic consequences.

There has not been a sufficient passage of time for the company to reliably quantify the impact of the foregoing on its financial results at the time of reporting.