



Canopy Insurance Limited

**Financial Statements
31 December 2020**

Canopy Insurance Limited

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31 December 2020

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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, 2020 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.



Michael J. Berman, FSA, MAAA
Principal & Consulting Actuary
24/03/2021



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 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

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

Report on other legal and regulatory requirements

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

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

Priscilla Howard Cooper
Chartered Accountants
29 March 2021
Kingston, Jamaica

Canopy Insurance Limited

Statement of Comprehensive Income

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

		Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Gross Premiums Written		1,439,270	93,002
Reinsurance ceded		<u>(67,684)</u>	<u>(5,059)</u>
Net premiums written		1,371,586	87,943
Change in unearned premiums, net		<u>(3,711)</u>	<u>-</u>
Net Premiums Earned		1,367,875	87,943
Change in insurance reserves		(63,458)	(28,353)
Commission on premiums written		(116,980)	(8,435)
Claims expense		(907,104)	(38,438)
Administration and other expenses	8	<u>(371,741)</u>	<u>(275,341)</u>
Underwriting Loss		(91,408)	(262,624)
Investment income	10	9,089	8,421
Other operating expense	8	(8,276)	-
Other income	11	<u>4,709</u>	<u>8,945</u>
Loss before Taxation		(85,886)	(245,258)
Taxation	12	<u>21,129</u>	<u>47,859</u>
Net Loss, being Total Comprehensive Income for Year		<u><u>(64,757)</u></u>	<u><u>(197,399)</u></u>

Canopy Insurance Limited


Statement of Financial Position

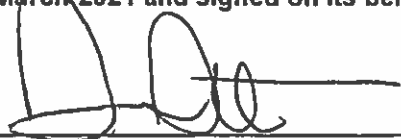
31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
ASSETS			
Cash and deposits	13	479,560	270,123
Investment securities	14	15,101	50,056
Due from policyholders, brokers and agents	15	132,982	34,299
Due from group companies		7,673	-
Other receivables	17	12,326	16,680
Taxation recoverable		4,041	1,821
Deferred tax asset	22	68,988	47,859
Deferred acquisition cost		928	-
Intangible assets	19	32,142	26,087
Property, plant and equipment	20	38,893	47,154
		<u>792,634</u>	<u>494,079</u>
LIABILITIES AND EQUITY			
Liabilities			
Other payables	21	137,660	39,273
Unearned premium		9,030	-
Due to reinsurers		5,626	3,729
Due to group companies		79,604	97,985
Lease liability	25	21,060	22,139
Insurance reserves	23	91,810	28,352
		<u>344,790</u>	<u>191,478</u>
Equity			
Share capital	24	710,000	500,000
Retained earnings		(262,156)	(197,399)
		<u>447,844</u>	<u>302,601</u>
		<u>792,634</u>	<u>494,079</u>

Approved for issue on behalf of the Board of Directors on 25 March 2021 and signed on its behalf by:


 Donald Wehby Chairman


 Sean Scott Director

Canopy Insurance Limited

Statement of Changes in Equity

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital \$'000	Accumulated Deficit \$'000	Total \$'000
Issue of shares	500,000	-	500,000
Net loss, being total comprehensive income	-	(197,399)	(197,399)
Balance at 31 December 2019	500,000	(197,399)	302,601
Issue of shares (Note 24)	210,000	-	210,000
Net loss, being total comprehensive income	-	(64,757)	(64,757)
Balance at 31 December 2020	710,000	(262,156)	447,844

Canopy Insurance Limited

Statement of Cash Flows

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 \$'000	2019 \$'000
Cash Flows from Operating Activities			
Net loss		(64,757)	(197,399)
Adjustments for:			
Amortisation and depreciation	19, 20	22,323	21,542
Loss on sale of property, plant and equipment		-	3,913
Foreign exchange losses/(gains)		8,276	(158)
Interest income	10	(9,089)	(8,421)
Interest expense		1,515	-
Taxation		(21,129)	(47,859)
		<u>(62,860)</u>	<u>(228,383)</u>
Changes in operating assets and liabilities			
Due from policyholders, brokers and agents		(98,683)	(34,299)
Insurance reserves		63,458	28,352
Due to reinsurers		1,897	3,729
Other receivables		2,134	(18,501)
Other payables, net		97,459	61,412
Due to group companies		(26,054)	97,984
Unearned premium		9,030	-
Cash used in operating activities		<u>(13,619)</u>	<u>(89,706)</u>
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	20	(3,751)	(264,611)
Acquisition of intangible assets	19	(11,674)	(36,892)
Proceeds on disposal of property, plant and equipment		-	202,808
Purchase of investments		-	(50,056)
Proceeds from the sale of investments		34,955	-
Interest received		9,089	8,579
Cash provided by/(used in) investing activities		<u>28,619</u>	<u>(140,171)</u>
Cash Flows from Financing Activities			
Proceeds from issue of shares		210,000	500,000
Lease repayments		(7,483)	-
Cash provided by financing activities		<u>202,517</u>	<u>500,000</u>
Increase in cash and cash equivalents		217,517	270,123
Effect of exchange rate changes on cash and cash equivalents		(8,080)	-
Cash and cash equivalent at the beginning of the year		270,123	-
Cash and cash equivalents at the end of the year	13	<u>479,560</u>	<u>270,123</u>

Company Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

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 Group 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 interpretations of IFRS Interpretations Committee (IFRIC IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These financial statements 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 action, 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 entity's financial statements are disclosed in Note 3.

Standard, interpretations and amendments to publish standards effective in the current year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Company has assessed the relevance of all such new standards, interpretations and amendments and has adopted the following which are relevant to its operations. Unless stated otherwise, the adoption of these new standards, amendments to existing standards or interpretations to published standards did not have a material impact on the operations of the Company.

- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' (effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of materiality and the meaning of primary users of general purpose financial statements by defining them as existing and potential investors, lenders and other creditors. The Company has applied the guidance on materiality when preparing its financial statements.
- Revised Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework will be used in standard-setting decisions with immediate effect, however no changes will be made to any of the current accounting standards. Entities that apply the Conceptual Framework in determining accounting policies will need to consider whether their accounting policies are still appropriate under the revised Framework. There was no impact from the adoption of this amendment.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

At the date of authorisation of these financial statements, certain new accounting standards, amendments and interpretation to existing standards have been issued which are not yet effective, and which the Company has not early adopted. The Company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations. Unless stated otherwise, the impact of the changes is still being assessed by management.

- IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The Company is currently assessing the impact of this standard.
- IFRS 16, 'Leases' – Covid-19 related rent concessions (effective for annual periods beginning on or after 1 June 2020). As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16, 'Leases' which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. The Company is currently assessing the impact of this amendment.
- Amendments to IAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2022). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The Company is currently assessing the impact of this amendment.
- Amendment to IAS 16, 'Property, plant and equipment' (effective for annual periods beginning on or after 1 January 2022). This amendment prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognise such sales proceeds and related cost in profit or loss. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. The Company is currently assessing the impact of this amendment.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company (continued)

- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' (effective for annual periods beginning on or after 1 January 2022). This amendment specifies which costs a Company includes when assessing whether a contract will be loss making. It clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. The Company is currently assessing the impact of this amendment.
- Annual improvements to IFRSs 2018 – 2020 cycles (effective for annual periods beginning on or after 1 January 2022). These amendments include minor changes to the following standards:
 - IFRS 9, 'Financial instruments'
 - IFRS 16, 'Leases'
 - IFRS 1, 'First-time adoption of International Financial Reporting Standards'
 - IAS 41, 'Agriculture'

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

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, investment securities, premium receivables, due from group companies, due from policyholders, brokers and agents, other receivables, unearned premium, due to reinsurers, due to group companies and other 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, due from policyholders, brokers and agents, 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.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

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 Year ended 31 December 2020 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 the statement of comprehensive income 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 2020

(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 %

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(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.

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

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(l) **Deferred policy acquisition costs**

The cost of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary and are directly related to the contracts, are deferred over the unexpired period of the risk carried.

(m) **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.

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.

Canopy Insurance Limited

Notes to the Financial Statements

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

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.

(p) Taxation recoverable

Taxation recoverable represents tax withheld from interest earned on investments net of income tax liability.

Canopy Insurance Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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 statement of financial position 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.

Canopy Insurance Limited

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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.

Canopy Insurance Limited

Notes to the Financial Statements

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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.

Canopy Insurance Limited

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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.

Canopy Insurance Limited

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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:

	2020	
	Policy Limit '000	Maximum Net Retention '000
Group Health	10,500	10,500
Group Life	92,000	2,000

	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.

Canopy Insurance Limited

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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.

	2020 \$'000	2019 \$'000
Claims Unpaid Group Health	75,962	25,702
Claims Unpaid Group Life	10,727	1,722
Claims Unpaid Group Critical Illness	1,498	
Claims Unpaid Group Personal Accident	949	
Claims Adjustment Expenses	2,674	928
	<u>91,810</u>	<u>28,352</u>

(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 the Company under the reinsured policies.

Canopy Insurance Limited

Notes to the Financial Statements

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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.

Canopy Insurance Limited

Notes to the Financial Statements

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Loss Allowance

The loss allowance as at 31 December 2020 and 31 December 2019 was determined as follows for premium receivables:

	at 31 December 2020			at 31 December 2019		
	Gross	Loss	Expected	Gross	Loss	Expected
	carrying amount \$'000	allowance \$'000	loss rate	carrying amount \$'000	allowance \$'000	loss rate
Less than 1 month	104,327	1,043	0.99%	34,607	348	1.05%
Within 1 to 3 months	15,316	153	1.00%	-	-	0.00%
Over 3 months	14,674	139	0.95%	44	4	9.09%
	<u>134,317</u>	<u>1,335</u>		<u>34,651</u>	<u>352</u>	

The closing loss allowances for premium receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	2020 \$'000	2019 \$'000
At beginning of the prior year	352	-
Movement on loss allowance recognised in income statement during the year	1,169	352
Receivables written off during the period as uncollectible	(186)	-
Balance at end of period	<u>1,335</u>	<u>352</u>

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, failure to make contractual payments for a period greater than one year, and alternative methods of debt collection have been exhausted. Impairment losses on premium receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited in other income.

Debt securities

The credit exposure for debt securities at their carrying amounts, is \$15,101,000 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

Notes to the Financial Statements

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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 statement of financial position 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.

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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 statement of financial position date, based on contractual repayment obligations.

	2020					Total \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	
Financial Assets						
Cash and deposits	479,560	-	-	-	-	479,560
Investment securities	15,101	-	-	-	-	15,101
Due from policyholders, brokers and agents	132,982	-	-	-	-	132,982
Due from related Company	7,673	-	-	-	-	7,673
Deferred acquisition cost	153	459	316	-	-	928
Other receivables	4,821	2,546	4,959	-	-	12,326
	<u>640,290</u>	<u>3,005</u>	<u>5,275</u>	-	-	<u>648,570</u>
Financial Liabilities						
Other payables	69,216	59,368	9,076	-	-	137,660
Due to reinsurers	-	5,626	-	-	-	5,626
Due to group companies	79,604	-	-	-	-	79,604
Unearned premium	1,277	3,831	3,922	-	-	9,030
Lease liability	768	225	8,989	13,409	-	23,391
Insurance reserves	42,358	15,629	33,823	-	-	91,810
	<u>193,223</u>	<u>84,679</u>	<u>55,810</u>	<u>13,409</u>	-	<u>347,121</u>
Liquidity gap	<u>447,067</u>	<u>(81,674)</u>	<u>(50,536)</u>	<u>(13,409)</u>	-	<u>301,449</u>

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 statement of financial position date, based on contractual repayment obligations.

	2019					Total \$'000
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'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
	<u>304,780</u>	<u>26,113</u>	<u>15,092</u>	<u>17,965</u>	<u>-</u>	<u>363,950</u>
Financial Liabilities						
Other payables	9,759	25,376	2,708	1,430	-	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
	<u>21,283</u>	<u>105,590</u>	<u>16,527</u>	<u>44,905</u>	<u>3,173</u>	<u>191,478</u>
Liquidity gap	<u>283,497</u>	<u>(79,477)</u>	<u>(1,435)</u>	<u>(26,940)</u>	<u>(3,173)</u>	<u>172,472</u>

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

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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 Year ended 31 December 2020 all of which is denominated in US\$.

	2020	2019
	\$'000	\$'000
Financial Assets		
Cash and deposits	235,083	558
Investment securities	-	19,677
Total financial assets	<u>235,083</u>	<u>20,235</u>
Financial Liabilities		
Other payables	9,341	3,628
Due to group companies	57,572	57,832
Lease liability	16,925	22,139
Total financial liabilities	<u>83,838</u>	<u>83,599</u>
Net financial position	<u>151,245</u>	<u>(63,364)</u>

Canopy Insurance Limited

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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 2% (4% - 2019) 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
	2020	
United States Dollar		
Revaluation of JMD	2%	(3,025)
Devaluation of JMD	6%	9,075
	2019	
United States Dollar		
Revaluation of JMD	4%	2,535
Devaluation of JMD	6%	(3,802)

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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 Year ended 31 December 2020.

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 Year ended 31 December 2020, the Company's financial assets were measured at amortised cost.

Canopy Insurance Limited

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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

	Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Advertising	22,764	8,947
Amortisation and depreciation	22,323	21,541
Auditor's remuneration	5,251	4,700
Bank charges and interest	2,344	3,083
Directors' fees	2,380	1,430
Legal and professional fees	8,947	13,944
Facilities and office expenses	16,084	9,302
Management fees	91,137	105,215
Other expenses	13,281	5,248
Staff costs (Note 9)	85,559	49,407
Other operating expenses	8,276	-
Startup cost	-	43,251
Underwriting expenses	101,671	9,273
Total	380,017	275,341

Canopy Insurance Limited

Notes to the Financial Statements

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9. Staff Costs

	Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Wages and salaries	54,262	39,827
Payroll taxes – employer's portion	6,191	3,932
Pension costs – defined contribution	917	179
Other staff costs	24,189	5,469
	<u>85,559</u>	<u>49,407</u>

10. Investment Income

Investment income of \$9,089,000 (2019 – 8,421,000) is solely comprised of interest income.

11. Other Income

	Year ended 31 December 2020 \$'000	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	4,709	170
	<u>4,709</u>	<u>8,945</u>

12. Taxation

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

	Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Current year taxation charge	-	-
Deferred tax credit (Note 22)	(21,129)	(47,859)
	<u>(21,129)</u>	<u>(47,859)</u>

Canopy Insurance Limited

Notes to the Financial Statements

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12. Taxation (Continued)

Subject to agreement with Tax Administration Jamaica, the Company has losses available for offset against future taxable profits of approximately \$266,145,000 (2019 - \$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:

	Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Loss before taxation	<u>(85,886)</u>	<u>(245,258)</u>
Tax calculated at a rate of 25%	(21,471)	(61,314)
Adjusted for the effects of:		
Income not subject to tax	-	(1,150)
Expenses not deductible for tax purposes	275	11,178
Adjustment to deferred tax	(3,331)	-
Net effect of other charges and allowance	<u>3,398</u>	<u>3,427</u>
Tax charge	<u>(21,129)</u>	<u>(47,859)</u>

13. Cash and Deposits

	2020 \$'000	2019 \$'000
Cash at bank and in hand	93,402	21,274
Short-term deposits (Including repurchase agreements)	<u>386,158</u>	<u>248,849</u>
Cash and deposits	<u>479,560</u>	<u>270,123</u>

Short term deposits include a balance of \$94,100,683 which has been pledged with the Regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

Short-term deposits currently earn interest at 0.75%-2.75% p.a. (2019- 2.4% p.a.) for Jamaican dollar denominated deposits and 1.9%-3% p.a. for United States dollar denominated deposits.

Canopy Insurance Limited

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14. Investment Securities

Investments comprise the following:

	2020 \$'000	2019 \$'000
Corporate	14,961	49,677
Interest receivable	140	379
	<u>15,101</u>	<u>50,056</u>

The current portion of investment securities amounted to \$15,100,754 (2019- 50,056,000).

15. Due from Policyholders, Brokers and Agents

	2020 \$'000	2019 \$'000
Premiums receivable	134,317	34,651
Less: Provision for impairment	(1,335)	(352)
	<u>132,982</u>	<u>34,299</u>

Ageing of premiums receivable

	2020 \$'000	2019 \$'000
Within 1 month	104,327	34,255
1-3 months	15,316	44
Over 3 Months	13,339	-
	<u>132,982</u>	<u>34,299</u>

16. Due from Reinsurers

Amounts recoverable from reinsurers relate to claims recoverable on IBNR which amount to \$21,039,000 (2019- \$3,498,000).

	2020 \$'000	2019 \$'000
Gross Claims IBNR	31,766	5,221
Less Net Claims IBNR	(10,727)	(1,723)
Due from Reinsurers	<u>21,039</u>	<u>3,498</u>

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

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17. Other Receivables

	2020 \$'000	2019 \$'000
Prepayments	2,546	7,208
Recovery of staff cost	4,821	6,437
Other	4,959	3,035
	<u>12,326</u>	<u>16,680</u>

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

	Year ended 31 December 2020 \$'000	Twenty-two months ended 31 December 2019 \$'000
Wages and salaries	30,005	25,429
Payroll taxes – employer's portion	2,848	2,526
Pension costs	572	219
	<u>33,425</u>	<u>28,174</u>

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18. Related Party Transactions and Balances (Continued)

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

	2020 \$'000	2019 \$'000
Cash and deposits		
Related party	<u>195,888</u>	<u>17,890</u>
Investment securities		
Related party	<u>-</u>	<u>19,677</u>
Due from policyholders, brokers and agents		
Related party	<u>55,939</u>	<u>21,652</u>
	<u>55,939</u>	<u>21,652</u>
Other payables		
Related party	<u>-</u>	<u>10,207</u>
Due to group companies		
Parent	76,624	97,403
Related party	<u>2,980</u>	<u>583</u>
	<u>79,604</u>	<u>97,986</u>

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18. Related Party Transactions and Balances (Continued)

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

	2020 \$'000	2019 \$'000
Gross premiums written		
Parent	39,288	4,051
Related party	600,573	74,447
	<u>639,861</u>	<u>80,517</u>
Commission expense		
Related party	61,687	7,081
	<u>61,687</u>	<u>7,081</u>
Administration and other expenses		
Parent	91,137	105,215
	<u>91,137</u>	<u>105,215</u>
Interest earned		
Related party	3,237	2,743
	<u>3,237</u>	<u>2,743</u>
Other income		
Parent	3,826	8,100
	<u>3,826</u>	<u>8,100</u>
Directors fees	2,380	1,430
	<u>2,380</u>	<u>1,430</u>

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19. Intangible Assets

	Computer Software \$'000
At Cost -	
At 1 January, 2019	-
Additions	36,892
At 31 December 2019	<u>36,892</u>
Additions	11,674
Transfer	3,362
At 31 December 2020	<u>51,928</u>
Amortisation -	
At 1 January, 2019	-
Amortisation charge for the year	10,805
At 31 December 2019	10,805
Amortisation charge for the year	8,981
At 31 December 2020	<u>19,786</u>
Net Book Amount -	
At 31 December 2020	<u>32,142</u>
At 31 December 2019	<u>26,087</u>

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
At Cost/Valuation -							2020
Additions	26,097	2,711	6,154	14,296	3,991	3,362	56,611
Right of use asset addition	-	102	3,307	-	342	-	3,751
Transfer to Intangible Asset	4,692	-	-	-	-	-	4,692
31 December 2020	30,789	2,813	9,461	14,296	4,333	(3,362)	61,692
Depreciation -	4,350	114	1,660	3,123	210	-	9,457
Charge for the period	7,403	281	2,379	2,859	420	-	13,342
31 December 2020	11,753	395	4,039	5,982	630	-	22,799
Net Book Value -							
Year ended 31 December 2020	19,036	2,418	5,422	8,314	3,703	-	38,893
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)
31 December 2019	26,097	2,711	6,154	14,296	3,991	3,362	56,611
Depreciation -	(1,280)	-	-	-	-	-	(1,280)
Disposal	5,630	114	1,660	3,123	210	-	10,737
Charge for the period	4,350	114	1,660	3,123	210	-	9,457
31 December 2019	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.

Company Limited

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21. Other Payables

	2020 \$'000	2019 \$'000
Accrued expenses	105,171	27,193
General consumption tax	32,489	6,560
Premiums prepaid by clients	-	5,520
	<u>137,660</u>	<u>39,273</u>

22. Deferred Taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

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

	2020 \$'000	2019 \$'000
Balance at beginning of year	47,859	-
Statement of comprehensive income (Note 12)	21,129	47,859
Balance at end of year	<u>68,988</u>	<u>47,859</u>

Deferred income taxes are attributable to the following items:

	2020 \$'000	2019 \$'000
Deferred income tax assets -		
Tax losses	66,536	47,657
Lease liability	5,265	5,535
Unrealised foreign exchange losses	339	-
Accelerated tax depreciation	3,789	-
	<u>75,929</u>	<u>53,192</u>
Deferred income tax liabilities -		
Accelerated tax depreciation	-	5,015
Interest receivable	364	318
Right of Use Asset	6,577	-
	<u>6,941</u>	<u>5,333</u>
Net deferred income tax asset	<u>68,988</u>	<u>47,859</u>

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22. Deferred Taxation (Continued)

The deferred tax debit/credit in the statement of comprehensive income comprises the following temporary differences:

	2020 \$'000	2019 \$'000
Tax losses	18,879	47,657
Lease liability	(270)	5,535
Unrealised foreign exchange losses	339	-
Accelerated tax depreciation	8,804	(5,015)
Interest receivable	(46)	(318)
Right of Use Asset	(6,577)	-
	<u>21,129</u>	<u>47,859</u>

The amounts shown in the statement of financial position include the following:

	2020 \$'000	2019 \$'000
Deferred tax assets to be recovered after more than 12 months	8,804	47,657
Deferred tax assets to be recovered within 12 months	<u>19,218</u>	<u>5,535</u>
	<u>28,022</u>	<u>53,192</u>
Deferred tax liabilities to be settled after more than 12 months	-	-
Deferred tax liabilities to be settled within 12 months	<u>6,893</u>	<u>5,333</u>
Net asset	<u>21,129</u>	<u>47,859</u>

Canopy Insurance Limited

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23. Insurance Reserves

	2020 \$'000	2019 \$'000
Provision for claims IBNR & UCAC	91,810	28,352
	Gross Liabilities	Net Liabilities
	2020 \$'000	2020 \$'000
Provision for claims IBNR	110,175	(21,039)
Unallocated claim adjustment expenses	2,674	-
	<u>112,849</u>	<u>91,810</u>
	Gross Liabilities	Net Liabilities
	2019 \$'000	2019 \$'000
Provision for claims IBNR	30,923	(3,498)
Unallocated claim adjustment expenses	927	-
	<u>31,850</u>	<u>28,352</u>

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 year ended 31 December 2020, 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

	2020 \$'000	2019 \$'000
Provision for claims IBNR, net:		
At the beginning of the period	28,352	-
Current year recognised as part of claims expense – IBNR gross	84,497	31,850
Current year recognised as part of claims expense – IBNR Recoverable	(21,039)	(3,498)
At the end of the period	<u>91,810</u>	<u>28,352</u>

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24. Share Capital

	2020 \$'000	2019 \$'000
Authorised - Unlimited ordinary shares		
Issued and fully paid - 710,000,000 ordinary shares at no par value	<u>710,000</u>	<u>500,000</u>

On May 29, 2020 the Company issued 210,000,000 ordinary shares equally between The GraceKennedy Group and Musson Jamaica Limited.

25. Lease Liability

The Company leases office space and office equipment.

- 1) The lease for the office space 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.
- 2) The Company entered into a lease for office equipment during the year. The period of the lease is 48 months and the discounted rate used to calculate the present value of the minimum lease payment was 7%.

Assets and liabilities arising from the leases 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.

Canopy Insurance Limited

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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 income.

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 2020 was \$7,483,000.

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

	2020 \$'000	2019 \$'000
Current	7,732	4,986
Non-current	13,328	17,153
	<u>21,060</u>	<u>22,139</u>