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To the members of  
**GLOBE INSURANCE COMPANY OF JAMAICA LIMITED**

## **Report on the Financial Statements**

We have audited the financial statements of Globe Insurance Company of Jamaica Limited (“the company”), set out on pages 3 to 42 which comprise the statement of financial position as at December 31, 2010, the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



To the Members of  
GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

**Report on the Financial Statements, cont'd**

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2010, and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

**Report on additional matters as required by the Jamaican Companies Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

A handwritten signature of the KPMG firm, written in a cursive, grey ink.


Chartered Accountants  
Kingston, Jamaica

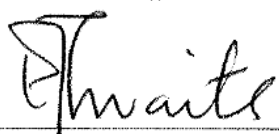
March 11, 2011

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDStatement of Financial Position  
December 31, 2010

	<u>Notes</u>	<u>2010</u> \$'000s	<u>2009</u> \$'000s
<b>ASSETS</b>			
Property, plant and equipment	5	29,366	29,636
Deferred acquisition costs	6	91,562	84,915
Reinsurance assets	7	977,056	1,084,763
Insurance receivables	8	120,457	179,582
Securities purchased under resale agreements	9	42,871	-
Investments	10	2,634,820	2,961,942
Taxation recoverable		-	9,694
Other accounts receivable		3,084	7,058
Accrued investment income		77,310	147,338
Cash and cash equivalents	11	<u>1,757,857</u>	<u>960,392</u>
		<u>5,734,383</u>	<u>5,465,320</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Insurance contract provisions	7	2,993,683	3,129,211
Accounts payable and accrued charges	12	53,014	69,295
Insurance payables	13	110,095	48,906
Taxation payables		47,028	-
Deferred commission income	14	118,314	91,367
Due to fellow subsidiary		2,378	870
Employee benefit obligations	15	24,100	17,200
Deferred taxation	16	<u>7,065</u>	<u>39,763</u>
		<u>3,355,677</u>	<u>3,396,612</u>
Share capital	17	640,000	640,000
Capital reserves	18	167	167
Investment revaluation reserve		69,076	31,836
Retained earnings		<u>1,669,463</u>	<u>1,396,705</u>
		<u>2,378,706</u>	<u>2,068,708</u>
		<u>5,734,383</u>	<u>5,465,320</u>

The financial statements on pages 3 to 42 were approved for issue by the Board of Directors on March 11, 2011 and signed on its behalf by:

  
\_\_\_\_\_  
W.A. McConnell Director

  
\_\_\_\_\_  
R.E.D. Thwaites Director

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

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDStatement of Comprehensive Income  
Year ended December 31, 2010

	<u>Notes</u>	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Gross premiums written	19	2,555,005	2,412,249
Change in gross provision for unearned premiums		<u>( 40,425)</u>	<u>38,140</u>
Gross insurance premium revenue		2,514,580	2,450,389
Written premiums ceded to reinsurers		(1,652,957)	(1,424,908)
Reinsurers' share of change in provision for unearned premiums		<u>73,577</u>	<u>( 12,888)</u>
Net insurance premium revenue		<u>935,200</u>	<u>1,012,593</u>
Claims expenses incurred	7	( 587,956)	(1,138,969)
Reinsurers' share of claims incurred	7	<u>21,217</u>	<u>433,279</u>
Net insurance claims		<u>( 566,739)</u>	<u>( 705,690)</u>
Commission expense	6	( 179,187)	( 187,186)
Commission income	14	<u>234,389</u>	<u>213,646</u>
Net commission income		<u>55,202</u>	<u>26,460</u>
		423,663	333,363
Operating expenses		<u>( 387,999)</u>	<u>( 416,215)</u>
Underwriting profit/(loss) before other income and taxation		35,664	( 82,852)
Investment income, net	20	411,948	554,635
Other operating income		30,486	19,685
Foreign exchange (losses)/gains		<u>( 34,665)</u>	<u>96,587</u>
		<u>407,769</u>	<u>670,907</u>
Profit before taxation	21	443,433	588,055
Taxation	22	<u>( 138,725)</u>	<u>( 154,644)</u>
Net profit for the year		304,708	433,411
Other comprehensive income			
Appreciation in fair value of investments		<u>37,240</u>	<u>66,659</u>
Total comprehensive income for the year		<u>341,948</u>	<u>500,070</u>

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

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDStatement of Changes in Shareholders' Equity  
Year ended December 31, 2010

	Share capital \$'000s (note 17)	Capital reserves \$'000s (note 18)	Investment revaluation reserve \$'000s	Retained earnings \$'000s	Total \$'000s
Balances at December 31, 2008	640,000	167	(34,823)	995,197	1,600,541
Total comprehensive income for the year	-	-	66,659	433,411	500,070
Preference dividends (note 26)	-	-	-	( 31,903)	( 31,903)
Balances at December 31, 2009	640,000	167	31,836	1,396,705	2,068,708
Total comprehensive income for the year	-	-	37,240	304,708	341,948
Preference dividends (note 26)	-	-	-	( 31,950)	( 31,950)
Balances at December 31, 2010	<u>640,000</u>	<u>167</u>	<u>69,076</u>	<u>1,669,463</u>	<u>2,378,706</u>

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

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDStatement of Cash Flows  
Year ended December 31, 2010

	<u>Notes</u>	<u>2010</u> \$'000s	<u>2009</u> \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit after taxation		304,708	433,411
Adjustments to reconcile profit after taxation to net cash (used)/provided by operating activities:			
Depreciation	5	11,096	9,631
Gain on sale of investments	20	( 18,735)	( 1,451)
(Decrease)/increase in insurance contract provisions		( 27,821)	109,554
Deferred taxation	22	( 32,698)	1,211
Employee benefit obligations		6,900	4,000
Income tax expense	22	171,423	153,433
Interest income	20	<u>( 387,502)</u>	<u>(548,831)</u>
		27,371	160,958
Changes in assets and liabilities excluding cash and deferred taxation:			
Securities purchased under resale agreements		( 42,871)	162,450
Insurance receivables and deferred commission expense		52,478	31,649
Other accounts receivable		3,974	( 4,468)
Accounts payable and accrued charges		( 16,281)	23,085
Insurance payables and deferred commission income		88,136	( 87,135)
Due to fellow subsidiary		<u>1,508</u>	<u>19</u>
Cash provided by operating activities		114,315	286,558
Income tax paid		<u>( 114,701)</u>	<u>(128,168)</u>
Net cash (used)/provided by operating activities		<u>( 386)</u>	<u>158,390</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid being net cash used by financing activity		<u>( 31,950)</u>	<u>( 15,975)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		457,530	525,160
Investments, net		206,087	(657,939)
Addition to property, plant & equipment	5	( 10,826)	( 10,364)
Proceeds from disposal of investments		<u>177,010</u>	<u>40,098</u>
Net cash provided/(used) by investing activities		<u>829,801</u>	<u>(103,045)</u>
Net increase in cash and cash equivalents		797,465	39,370
Cash and cash equivalents at beginning of the year		<u>960,392</u>	<u>921,022</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>11</b>	<b><u>1,757,857</u></b>	<b><u>960,392</u></b>

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

## GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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### 1. Corporate structure and nature of business

The company is incorporated in Jamaica under the Companies Act, is domiciled in Jamaica and operates from its registered office at 19 Dominica Drive, Kingston 5. It is a wholly-owned subsidiary of Globe Holdings Limited which is incorporated in St. Lucia. The ultimate parent company is CL Financial Limited, which is incorporated in Trinidad & Tobago.

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

### 2. Insurance licence

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

### 3. Roles of the actuary and auditors

The actuary has been appointed by the Board of Directors pursuant to the Act. With respect to preparation of financial statements, the actuary is required to carry out an actuarial valuation of management's estimate of the company's policy liabilities and report thereon to the shareholders. Actuarially determined policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive that may be made by regulatory authorities. The actuary, in his verification of the management information provided by the company which is used in the valuation, also makes use of the work of the external auditors.

The external auditors have been appointed by the shareholders pursuant to the Jamaican Companies Act to conduct an independent and objective audit of the financial statements of the company in accordance with International Standards on Auditing and to report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

### 4. Statement of compliance, basis of preparation and significant accounting policies

Statement of compliance:

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

At the date of authorisation of the financial statements there were certain new standards and amendments to interpretations of existing standards, which were in issue, but not yet effective. Those which are considered relevant to the company are as follows:

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd) )

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

- *IFRS 9, Financial Instruments - 2010* (effective January 1, 2013). The revised IFRS supersedes the previous version of IFRS 9 issued in 2009. The revised standard now includes guidance on classification and measurement of financial liabilities designated as fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities.
- *IAS 24, Related Party Disclosure, revised* (effective January 1, 2011) introduces changes to the related party disclosure requirements for government - related entities and amends the definition of a related party. The standard also expands the list of transactions that require disclosure.
- *Amendments to IAS 32 Financial instruments: Presentation* (effective February 1, 2010). The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification.
- *IFRS 7 Financial Instruments: Disclosures* (effective January 1, 2011) – The standard is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed.
- *IAS 1 Presentation of Financial Statements* – IAS 1 is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognized in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners.

The company is assessing the impact, if any, that these amendments would have on the 2011 and 2013 financial statements.

(b) Basis of preparation:

The financial statements are prepared under the historical cost convention, modified for the inclusion of available-for-sale investments at fair value.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

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

These financial statements are presented in Jamaica dollars (\$), which is the functional currency of the company.

## (c) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expense for the year then ended. Actual amounts could differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

## (i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, based on default and adverse economic conditions. Management makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

## (ii) Outstanding claims, see note 4(n).

## (d) Cash and cash equivalents:

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

## (e) Accounts receivable:

Trade and other receivables are stated at cost less impairment losses [refer accounting policy (l)].

## (f) Accounts payable:

Trade and other payables, are stated at cost.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

## (g) Provisions:

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligations.

## (h) Related parties:

A party is related to the company, if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - (a) is controlled by, or is under common control with, the company;
  - (b) has an interest in the company that gives it significant influence over the entity; or
  - (c) has joint control over the company;
- (ii) the party is an associate of the company;
- (iii) the party is a joint venture in which the company is a venturer;
- (iv) the party is a member of the key management personnel of the company;
- (v) the party is a close member of the family of any individual referred to in (i) or (ii).

ntly controlled or significantly  
ing power in such entity resides  
referred to in (iv) or (v); or  
for the benefit of employees of the

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

## (i) Investments:

Available-for-sale investments are stated at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost, with any movements in fair value included in investment revaluation reserve. Investments with fixed or determinable payments and which are not quoted in an active market are classified as loans and receivables, and are measured at amortised cost less impairment losses.

The fair value of available-for-sale investments is based on their quoted market bid price at the reporting date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

Available-for-sale investments are recognised or derecognised by the company on the date they commit to purchase or sell the investments.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

## (i) Investments (cont'd):

Other investments are recognised or derecognised on the day they are transferred to/by the company.

## (j) Property, plant &amp; equipment:

## (i) Property, plant &amp; equipment are stated at cost or deemed cost, less accumulated depreciation and impairment losses [see accounting policy (l)].

Freehold land and buildings that had been revalued to fair value prior to January 1, 2002, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

## (ii) Depreciation:

Property, plant & equipment are depreciated using the straight-line method at annual rates estimated to write-off the property, plant and equipment over their expected useful lives.

No depreciation is charged on freehold land.

The depreciation rates are as follows:

Buildings	2 $\frac{1}{2}$ %
Furniture and equipment	10%
Motor vehicles	20%
Plant and machinery	10%
Computers and computer software	100%/33 $\frac{1}{3}$ %

## (k) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Jamaica dollars at the rates of exchange ruling on that date. Gains and losses arising from fluctuations in exchange rates are recognised in profit or loss.

For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in profit or loss are treated as cash items and included in cash flows from operating or financing activities along with movements in the principal balances.

## (l) Impairment:

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

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(l) Impairment: (cont'd)

(i) (cont'd)

The recoverable amount of the company's loans and receivables is calculated as the present value of the expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of the other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment:

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

(m) Revenue recognition:

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

Revenue comprises the following:

(i) Gross written premiums

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 4[n][i].

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(m) Revenue recognition: (cont'd)

(ii) Commission income

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts (see note 4[n][i]). Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

(iii) Investment income

Investment income arises from financial assets and is comprised of interest and dividends and realised gains/losses on financial assets. Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(n) Insurance contract recognition and measurement:

(i) Insurance contracts

Insurance contracts are accounted for in compliance with the recommendations and practices of the insurance industry, and comply with the provisions of the Insurance Act 2001. The underwriting results are determined after making provision for, inter alia, unearned premiums, outstanding claims, unexpired risks, deferred commission expense and deferred commission income.

*Gross written premiums*

Gross premiums reflect business written during the year, and include adjustments to premiums written in previous years. The earned portion of premiums is recognised as revenue. Premiums are earned from the effective date of the policy.

*Unearned premiums*

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

*Unexpired risks*

Unexpired risks represent the amount set aside in addition to unearned premiums, in respect of risks to be borne by the company under contracts of insurance entered into before the end of the financial year and is actuarially determined.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

## (n) Insurance contracts recognition and measurement: (cont'd)

## (i) Insurance contracts (cont'd)

*Outstanding claims*

Outstanding claims comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on the historical experience of the company. The loss and loss expense reserves have been reviewed by the company's actuary using the past loss experience of the company and industry data. Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

Management believes, based on the analysis completed by their actuary, that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

*Deferred acquisition cost and deferred commission income*

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

## (ii) Reinsurance assets

In the normal course of business the company seeks to reduce the loss that may result from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers (see note 23). Reinsurance ceded does not discharge the company's liability as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the company. Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned reinsurance premiums on business ceded up to the accounting date which are attributable to subsequent periods are calculated substantially on the "twenty-fourths" basis on the total premiums ceded.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in profit or loss

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

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

(iii) Insurance receivable and insurance payable

Amounts due from and to policyholders, brokers, agents and reinsurers are financial instruments and are included in insurance receivables and payables and not in insurance contract provisions or reinsurance assets.

(o) Operating lease payments:

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

(p) Taxation:

Taxation on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Employee benefits:

Employee benefits comprising post-employment obligations included in these financial statements have been actuarially determined by a qualified independent actuary. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuation was conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefits obligations as computed by the actuary. In carrying out their audit, the auditors make use of the work of the actuary and the actuary's report.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

## (q) Employee benefits: (cont'd)

## (i) Pension plans:

## Defined benefit:

The company is a participating employer in defined benefit group pension plans. The main defined benefit plan is effectively guaranteed by the ultimate holding company and does not expose the participating company to actuarial risks. This plan, Lascelles, Henriques, et. al. Superannuation Fund (LHSF), is therefore accounted for as a defined contribution plan in the financial statements of the company, that is, pension contributions are expensed as and when they fall due.

## Defined contribution:

Effective January 1, 2009, the LHSF was closed to the admission of new members. Persons employed after January 1, 2009 are required to join Lascelles, deMercado Defined Contribution Fund, a defined contribution scheme administered by NCB Insurance Company Limited.

## (ii) Other post-retirement benefits:

The company provides post-retirement health care benefits, which are not entitlements, to certain of its retirees. These benefits are usually conditional upon the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans and the present value of future benefits at the reporting date is shown as an obligation on the statement of financial position.

## (iii) Other employee benefits:

Employee entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for vacation leave, as a result of services rendered by employees up to the reporting date.

## (r) Securities purchased under resale agreements:

Securities purchased under resale agreements ("reverse repos") are short-term transactions whereby an entity buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred unless the counterparty fails to comply with the terms of the contract.

Reverse repos are accounted for as short-term collateralised lending, classified as loans and receivables and measured at amortised cost.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

4. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

## (s) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, insurance receivables and other accounts receivable. Financial liabilities include accounts payable, insurance payables, and related party balances.

5. Property, plant and equipment

	<u>Freehold land and buildings</u> \$'000s	<u>Furniture and equipment</u> \$'000s	<u>Motor vehicles</u> \$'000s	<u>Computer machinery</u> \$'000s	<u>Plant and</u> \$'000s	<u>Total</u> \$'000s
At cost:						
December 31, 2008	25,435	9,618	876	17,169	1,289	54,387
Additions	-	488	-	9,876	-	10,364
December 31, 2009	25,435	10,106	876	27,045	1,289	64,751
Additions	-	1,691	-	9,135	-	10,826
December 31, 2010	<u>25,435</u>	<u>11,797</u>	<u>876</u>	<u>36,180</u>	<u>1,289</u>	<u>75,577</u>
Depreciation:						
December 31, 2008	12,806	8,865	875	1,649	1,289	25,484
Charge for the year	633	119	-	8,879	-	9,631
December 31, 2009	13,439	8,984	875	10,528	1,289	35,115
Charge for the year	633	150	-	10,313	-	11,096
December 31, 2010	<u>14,072</u>	<u>9,134</u>	<u>875</u>	<u>20,841</u>	<u>1,289</u>	<u>46,211</u>
Net book values:						
December 31, 2010	<u>11,363</u>	<u>2,663</u>	<u>1</u>	<u>15,339</u>	<u>-</u>	<u>29,366</u>
December 31, 2009	<u>11,996</u>	<u>1,122</u>	<u>1</u>	<u>16,517</u>	<u>-</u>	<u>29,636</u>
December 31, 2008	<u>12,629</u>	<u>753</u>	<u>1</u>	<u>15,520</u>	<u>-</u>	<u>28,903</u>

Freehold land and buildings include land at cost aggregating \$110,000 (2009: \$110,000).

The revalued amounts of freehold land and buildings were deemed to be the assets' cost upon first-time adoption of IFRS.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 20106. Deferred acquisition costs

	<u>2010</u>	<u>2009</u>
	\$'000s	\$'000s
The analysis of the deferred acquisition costs is as follows:		
Balance January 1	84,915	101,197
Paid during the year	185,834	170,904
Transfers to income during the year	(179,187)	(187,186)
Balance December 31	<u>91,562</u>	<u>84,915</u>

7. Reinsurance assets and insurance contract provisions

	<u>2010</u>			<u>2009</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Claims outstanding [note 7(a)]	1,751,270	227,743	1,523,527	1,927,223	440,036	1,487,187
Unearned premiums [note 7(b)]	<u>1,242,413</u>	<u>749,313</u>	<u>493,100</u>	<u>1,201,988</u>	<u>644,727</u>	<u>557,261</u>
	<u>2,993,683</u>	<u>977,056</u>	<u>2,016,627</u>	<u>3,129,211</u>	<u>1,084,763</u>	<u>2,044,448</u>

## Analysis of movements in insurance contract provisions

## Claims outstanding:

	<u>2010</u>			<u>2009</u>		
	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>	<u>Gross</u>	<u>Reinsurance</u>	<u>Net</u>
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Claims notified	1,451,422	350,355	1,101,067	1,096,141	175,409	920,732
Claims incurred but not reported	<u>475,801</u>	<u>89,681</u>	<u>386,120</u>	<u>548,046</u>	<u>116,397</u>	<u>431,649</u>
Balance at January 1	<u>1,927,223</u>	<u>440,036</u>	<u>1,487,187</u>	<u>1,644,187</u>	<u>291,806</u>	<u>1,352,381</u>
Claims expense incurred	587,956	21,217	566,739	1,138,969	433,279	705,690
Claims paid in year	<u>(763,909)</u>	<u>(233,510)</u>	<u>(530,399)</u>	<u>(855,933)</u>	<u>(285,049)</u>	<u>(570,884)</u>
Change in outstanding claims provision	<u>(175,953)</u>	<u>(212,293)</u>	<u>36,340</u>	<u>283,036</u>	<u>148,230</u>	<u>134,806</u>
Balance at December 31	<u>1,751,270</u>	<u>227,743</u>	<u>1,523,527</u>	<u>1,927,223</u>	<u>440,036</u>	<u>1,487,187</u>
Claims notified	1,272,325	130,957	1,141,368	1,451,422	350,355	1,101,067
Claims incurred but not reported	<u>478,945</u>	<u>96,786</u>	<u>382,159</u>	<u>475,801</u>	<u>89,681</u>	<u>386,120</u>
Balance December 31	<u>1,751,270</u>	<u>227,743</u>	<u>1,523,527</u>	<u>1,927,223</u>	<u>440,036</u>	<u>1,487,187</u>

(a) Outstanding claims include claims payable of \$68,919,000 (2009: \$75,176,000) under policies issued to related parties.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 20107. Reinsurance assets and insurance contract provisions (cont'd)*Analysis of movement in unearned premiums*

Unearned premiums:

	2010			2009		
	<u>Gross</u> \$'000s	<u>Reinsurance</u> \$'000s	<u>Net</u> \$'000s	<u>Gross</u> \$'000s	<u>Reinsurance</u> \$'000s	<u>Net</u> \$'000s
Balance January 1	1,201,988	644,727	557,261	1,240,128	657,615	582,513
Portfolio transfer	-	31,009	31,009	-	-	-
Premiums written during the year	2,555,005	1,652,957	902,048	2,412,249	1,424,907	987,342
Premiums earned during the year	(2,514,580)	(1,579,380)	(935,200)	(2,450,389)	(1,437,795)	(1,012,594)
Balance December 31	<u>1,242,413</u>	<u>749,313</u>	<u>493,100</u>	<u>1,201,988</u>	<u>644,727</u>	<u>557,261</u>

(b) Gross unearned premiums are analysed by class of business as follows:

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Accident	50,347	27,439
Liability	73,874	85,729
Marine	7,051	10,083
Motor	353,127	349,493
Pecuniary loss	5,134	4,231
Property	<u>752,880</u>	<u>725,013</u>
	<u>1,242,413</u>	<u>1,201,988</u>

Process used to determine the assumptions for measuring insurance contracts:

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

The insurance contract claims provision at the reporting date comprises the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This provision is not discounted for the time value of money.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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

Process used to determine the assumptions for measuring insurance contracts (cont'd)

The outstanding claims provisions are estimated based on facts known at the date of estimation. The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- Changes in the mix of insurance contracts written; and
- Impact of large losses.

Incurred but not reported provisions and provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross incurred but not reported estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the reinsurance asset. Impairment of reinsurance assets is considered separately.

8. <u>Insurance receivables</u>	<u>2010</u>	<u>2009</u>
	\$'000s	\$'000s
Receivables arising from insurance and reinsurance contracts due from other insurance companies	3,687	1,516
Premiums receivable	<u>116,770</u>	<u>178,066</u>
	<u>120,457</u>	<u>179,582</u>

The premiums receivable balance includes \$Nil (2009: \$3,579,000) due from related parties.

9. Securities purchased under resale agreements

The fair value of the underlying securities at December 31, 2010 amounts to \$42,656,000 (2009: \$Nil).

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 2010

10. <u>Investments</u>	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Loans and receivables:		
Maturing:		
Within 1 year:		
Deposits	13,080	69,800
Government of Jamaica Bonds	-	552,772
Government of Jamaica Investment Debentures	-	235,000
Government of Jamaica Local Registered Stocks	-	825
Bank of Jamaica Certificates of deposit	-	190,000
Other Debentures - IAJ	-	646
Corporate Bonds	-	12,745
Treasury Bills	264,855	-
Within 1 and 5 years:		
Government of Jamaica Bonds	946,673	867,672
Government of Jamaica Investment Debentures	-	210,627
Corporate Bonds	29,896	31,154
Over 5 years:		
Government of Jamaica Bonds	969,818	195,000
Government of Jamaica Local Registered Stocks	-	30,000
	<u>2,224,322</u>	<u>2,396,241</u>
Available-for-sale securities:		
Quoted equities	236,078	216,469
Unquoted equities	1,121	-
Mutual funds	47,583	44,782
Corporate bonds	17,110	12,728
Government of Jamaica Local Registered Stocks	-	38,137
Government of Jamaica Bonds	<u>108,606</u>	<u>253,585</u>
	<u>410,498</u>	<u>565,701</u>
	<u>2,634,820</u>	<u>2,961,942</u>

Investments include foreign currency investments aggregating US\$8,605,000 (2009: US\$5,921,000). At December 31, 2010, the fair value of loans and receivables aggregated \$2,369,676,000 (2009: \$2,388,429,000).

Government of Jamaica bonds include \$50,000,000 (2009: \$50,000,000) held to the order of the Financial Services Commission as required by the Insurance Act 2001.

Corporate bonds maturing within 1 and 5 years include \$29,896,000 (2009: \$31,154,000) with a related company.

11. <u>Cash and cash equivalents</u>	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Cash and bank balances	94,864	120,707
Securities purchased under resale agreements	321,365	165,599
Deposits	50,769	135,208
Bank of Jamaica certificates of deposit	900,000	325,000
Other monetary instruments	<u>390,859</u>	<u>213,878</u>
	<u>1,757,857</u>	<u>960,392</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201012. Accounts payable and accrued charges

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Accounts payable and accrued charges	5,906	5,552
Other payables	<u>47,108</u>	<u>63,743</u>
	<u>53,014</u>	<u>69,295</u>

Other payables include \$17,306,000 (2009: \$17,306,000) due to related parties.

13. Insurance payables

This represents payables arising from insurance and reinsurance contracts due to other insurance companies.

14. Deferred commission income

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

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Balance January 1	91,367	107,768
Commission received during the year	261,336	197,245
Transfers to income during the year	(234,389)	(213,646)
Balance December 31	<u>118,314</u>	<u>91,367</u>

15. Employee benefit obligations

The company's obligation in respect of post-retirement benefits has been recognised primarily in respect of medical benefits for pensioners as follows:

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Present value of obligations	30,700	24,500
Unrecognised actuarial gains	( 6,600)	( 7,300)
Recognised liability	<u>24,100</u>	<u>17,200</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

15. Employee benefit obligations (cont'd)

(i) Movements in the net liability recognised in the statement of financial position:

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Balance at beginning of year	17,200	13,200
Expense recognised in profit or loss	7,200	4,200
Contributions by employers	( 300)	( 200)
	<u>24,100</u>	<u>17,200</u>

(ii) Expense recognised in profit or loss:

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Service cost	2,000	1,600
Interest on obligations	5,000	2,500
Net actuarial loss recognised in year	<u>200</u>	<u>100</u>
	<u>7,200</u>	<u>4,200</u>

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

	<u>2010</u>	<u>2009</u>
Discount rate	11.5%	19%
Medical claims growth	<u>10 %</u>	<u>17%</u>

Assumptions regarding future mortality are based on PA (90)M and PA(90)F tables with ages reduced by six years.

The overall expected long-term rate of return on assets is 11.5%.

The expected long-term rate of return is based on the assumed long-term rate of inflation.

(iv) Assumed health care cost trends have a significant effect on the amounts recognised in profit or loss. A one percent point change in assumed healthcare cost trend rates would have the following effects:

	<u>One percentage point increase</u> \$'000s	<u>One percentage point decrease</u> \$'000s
Effect on the aggregate service and interest cost	1,800	(1,500)
Effect on the defined benefit obligation	<u>7,900</u>	<u>(3,700)</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201015. Employee benefit obligations (cont'd)

(v) Historical information:

	<u>2010</u> \$'000	<u>2009</u> \$'000	<u>2008</u> \$'000	<u>2007</u> \$'000	<u>2006</u> \$'000
Present value of the defined benefit obligation	(30,700)	(24,500)	(17,600)	(11,900)	(11,600)
Experience adjustments arising on plan liabilities	<u>2,700</u>	<u>(2,800)</u>	<u>(100)</u>	<u>(900)</u>	<u>(200)</u>

16. Deferred taxation

Deferred tax liability is attributable to the following:

	<u>January 1, 2010</u> \$'000s	<u>Recognised in income</u> \$'000s	<u>December 31, 2010</u> \$'000s
Property, plant & equipment	4,454	( 606)	3,848
Gain/(loss) on exchange	4,092	( 7,711)	( 3,619)
Employee benefit obligations	(12,127)	( 1,039)	(13,166)
Accrued investment income	49,113	(23,342)	25,771
Preference dividends	<u>( 5,769)</u>	<u>-</u>	<u>( 5,769)</u>
	<u>39,763</u>	<u>(32,698)</u>	<u>7,065</u>

17. Share capital

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Authorised, issued and fully paid -		
427,000,000 ordinary shares of no par value	427,000	427,000
213,000,000 15% cumulative redeemable convertible preference shares of no par value	<u>213,000</u>	<u>213,000</u>
	<u>640,000</u>	<u>640,000</u>

18. Capital reserves

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Realised gain on disposal of investments	151,141	151,141
Share premium	<u>170</u>	<u>170</u>
	151,311	151,311
Capitalisation as bonus shares	<u>(151,144)</u>	<u>(151,144)</u>
	<u>167</u>	<u>167</u>

Realised capital reserves are available for distribution to shareholders, subject to transfer tax at 4% (2009: 4%).

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201019. Gross premiums written

Gross premium income includes \$389,349,000 (2009: \$375,156,000) received from fellow subsidiary companies.

20. Investment income

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Interest income	387,502	548,831
Dividend income	17,711	17,226
Net gains on disposal of available for sale financial assets	<u>18,735</u>	<u>1,451</u>
	423,948	567,508
Less: Investment expenses	<u>(12,000)</u>	<u>(12,873)</u>
Investment income, net	<u>411,948</u>	<u>554,635</u>

21. Disclosure of expenses and related party transactions

(a)

Profit before taxation is stated after charging:	<u>2010</u> \$'000s	<u>2009</u> \$'000s
	11,096	9,631
Depreciation	1,595	1,595
Directors' emoluments - fees	15,756	15,628
- management	6,861	5,364
Auditors' remuneration	212,001	231,697
Other staff costs	3,259	3,239
Pension contributions	7,998	7,592
Motor vehicle lease – related parties	<u>12,983</u>	<u>12,334</u>
Property lease		

(b)

Transactions with key management personnel:

Compensation of key management personnel (including executive director) is as follows:

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Short term employment benefits		
Salary	41,028	42,074
Pension contributions [see note 4(q)]	801	823
	<u>41,829</u>	<u>42,897</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

22. Taxation

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

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
Current tax expense	171,423	153,433
Deferred tax expense:		
Origination and reversal of temporary differences	( 32,698)	1,211
Total taxation expense	<u>138,725</u>	<u>154,644</u>

	<u>2010</u> \$'000s	<u>2009</u> \$'000s
(b) Reconciliation of effective tax rate:		
Profit before tax	<u>443,433</u>	<u>588,055</u>
Computed "expected" tax expense	147,811	196,018
Difference between profit for financial statements and tax reporting purposes on -		
Depreciation charge and capital allowances	( 434)	-
Other disallowed expenses and adjustments	14,349	( 24,591)
Tax exempt dividends	( 6,106)	( 5,665)
Preference dividends	( 10,650)	( 10,634)
Capital gains	( 6,245)	( 484)
Actual tax expense	<u>138,725</u>	<u>154,644</u>

23. Insurance risk management**Risk management objectives and policies for mitigating insurance risk:***Overview*

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

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

The principal types of policy written by the company are:

Liability insurance  
Property insurance  
Motor insurance

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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23. Insurance risk management (cont'd)

**Risk management objectives and policies for mitigating insurance risk: (cont'd)**

The company manages its insurance risk through its underwriting policy that includes, inter alia, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance.

The company actively monitors insurance risk exposures both for individual and portfolio types of risks. These methods include internal risk measurement, portfolio modeling and scenario analyses.

The company seeks to underwrite a balanced portfolio of risks at rates and terms that will produce an underwriting result consistent with its long term objectives.

The board of directors approves the underwriting strategy which is set out in an annual business plan and management is responsible for the attainment of the established objectives.

Reinsurance strategy:

The company reinsures a portion of the risks it underwrites in order to protect capital resources and to limit its exposure to variations in the projected frequency and severity of losses.

Ceded reinsurance includes credit risk, and the company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The board of directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria. They also monitor its adequacy on an ongoing basis. Credit risk on reinsurance is discussed in more detail later in note 25.

Terms and conditions of general insurance contracts:

The table below provides an overview of the terms and conditions of general insurance contracts written by the company and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend:

<b>Type of contract</b>	<b>Terms and conditions</b>	<b>Key factors affecting future cash flows</b>
Liability	Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposures are in relation to bodily injury.	<p>The timing of claims reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions.</p> <p>Although bodily injury claims can have a relatively long tail, the majority of the claims incurred by the company are settled in the short term. In general, these claims involve higher estimation uncertainty.</p>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

23. Insurance risk management (cont'd)**Risk management objectives and policies for mitigating insurance risk: (cont'd)**

Terms and conditions of general insurance contracts (cont'd)

Type of contract	Terms and conditions	Key factors affecting future cash flows
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholders against the loss or damage to their own material property and business interruption arising from this damage.	<p>The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property.</p> <p>The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay.</p> <p>The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.</p>
Motor	<p>Motor insurance contracts provide cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.</p>	<p>In general, claims reporting lags are minor and claim complexity is relatively low.</p>

*Management of general insurance risk*

## Liability contracts:

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The company monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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23. Insurance risk management (cont'd)*Management of general insurance risk (cont'd)*

## Property contracts:

The risks relating to property contracts are managed primarily through the pricing process. The company uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the company accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

## Motor contracts:

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

*Risk exposure and concentrations of risk:*

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

	<u>Liability</u> \$'000s	<u>Property</u> \$'000s	<u>Motor</u> \$'000s	<u>Other</u> \$'000s	<u>Total</u> \$'000s
At 31 December 2010					
Gross	583,265	199,153	940,003	28,849	1,751,270
Net of reinsurance	<u>507,980</u>	<u>66,617</u>	<u>921,931</u>	<u>26,998</u>	<u>1,523,527</u>
At 31 December 2009					
Gross	707,688	361,721	800,577	57,237	1,927,223
Net of reinsurance	<u>611,931</u>	<u>55,612</u>	<u>784,871</u>	<u>34,773</u>	<u>1,487,187</u>

*Claims development:*

Claims development information is disclosed in order to illustrate the insurance risk inherent in the company. The top part of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

23. Insurance risk management (cont'd)

*Claims development (cont'd):*

Analysis of net claims development

	Accident year						
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Estimate of cumulative claims							
at end of accident year	1,096,020	488,451	564,039	616,497	806,921	621,807	-
-one year later	885,537	443,154	550,046	609,279	568,742	-	-
-two years later	821,996	426,552	569,094	620,523	-	-	-
-three years later	793,230	382,609	551,237	-	-	-	-
-four years later	724,112	527,745	-	-	-	-	-
-five years later	768,701	-	-	-	-	-	-
Estimate of cumulative claims	768,701	527,745	551,237	620,523	568,742	621,807	3,658,755
Cumulative payments to date	<u>622,997</u>	<u>406,614</u>	<u>411,837</u>	<u>420,094</u>	<u>235,499</u>	<u>38,187</u>	<u>2,135,228</u>
Net outstanding claims liabilities	<u>145,704</u>	<u>121,131</u>	<u>139,400</u>	<u>200,429</u>	<u>333,243</u>	<u>583,620</u>	<u>1,523,527</u>

24. Fair values of financial instruments

Fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The following table sets out the fair values of financial instruments using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as property, plant and equipment.

Fair values were estimated as follows:

The fair values of cash and cash equivalents, accrued investment income, reinsurance assets, insurance receivables and other receivables, insurance and other payables and insurance contract provisions are assumed to approximate their carrying values, due to their short-term nature.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

24. Fair values of financial instruments (cont'd)

Fair value: (cont'd)

The fair value of financial instruments is assumed to be equal to the estimated market value of investments provided in the following tables. These values are based on quoted market prices, when available, when not available, other valuation techniques are used.

	2010		2009	
	Carrying value \$'000s	Fair value \$'000s	Carrying value \$'000s	Fair value \$'000s
<b>Assets</b>				
Earning assets:				
Securities purchased under resale agreements	42,871	42,656	-	-
Available for sale financial assets	410,498	410,498	565,701	565,701
Loans and receivables	2,224,322	2,369,676	2,396,241	2,388,429
Cash and cash equivalents	<u>1,757,857</u>	<u>1,757,857</u>	<u>960,392</u>	<u>960,392</u>
	<u>4,435,548</u>	<u>4,580,687</u>	<u>3,922,334</u>	<u>3,914,522</u>

*Determination of fair value and fair values hierarchy*

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

Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The sources of the input parameters are as follows:

<u>Type of instrument</u>	<u>Source</u>
Jamaica Sovereign bonds	Prices from Oppenheimer and yield curve from Pan Caribbean Financial Services Limited
Corporate bonds	Prices from Oppenheimer
Mutual funds	Prices from fund managers

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

24. Fair values of financial instruments (cont'd)*Determination of fair value and fair values hierarchy (cont'd)*

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

	2010 \$'000s			Total
	Level 1	Level 2	Level 3	
Available for sale financial assets	<u>236,078</u>	<u>173,299</u>	<u>1,121</u>	<u>410,498</u>

	2009 \$'000s			Total
	Level 1	Level 2	Level 3	
Available for sale financial assets	<u>216,469</u>	<u>349,232</u>	<u>-</u>	<u>565,701</u>

25. Financial risk management

The company has exposure to the following financial risks from its use of financial instruments and its insurance contracts:

Credit risk  
Liquidity risk  
Market risk  
Operational risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's financial risk management framework. The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and investment contracts. The goal of the investment management process is to optimise the net of taxes, risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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25. Financial risk management (cont'd)

## Risk management framework (cont'd)

The asset/liability matching process is largely influenced by estimates of the timing of payments required in terms of insurance. These estimates are re-evaluated on a regular basis. There are also criteria for ensuring the matching of assets and liabilities as investment markets change.

## (a) Credit risk

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

The company's key areas of exposure to credit risk include:

- debt securities and cash equivalents
- amounts due from policyholders
- amounts due from intermediaries
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of payments already made to policyholders

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

*Management of credit risk*

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

Its exposure to individual policyholders and groups of policyholders is monitored as part of its credit control process.

All intermediaries must meet minimum requirements that are established and enforced by the company's management. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The company also operates a policy to manage its reinsurance counterparty exposures, and assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201025. Financial risk management (cont'd) )

## (a) Credit risk (continued)

*Exposure to credit risk*

	<u>AAA</u> \$'000	<u>AA</u> \$'000	<u>A</u> \$'000	<u>B</u> \$'000	<u>Not rated</u> \$'000	<u>Total</u> \$'000
December 31, 2010						
Financial assets:						
Carrying amount	-	-	-	17,110	2,334,049	2,351,159
Reinsurance assets:(excluding unearned premium reserve):						
Carrying amount	-	78,844	132,302	-	16,597	227,743
Insurance and other receivables: (excluding prepayments)						
Neither past due nor impaired	-	504	1,892	-	120,074	122,470
Past due but not impaired	-	-	-	-	1,071	1,071
Carrying amount	-	504	1,892	-	121,145	123,541
Cash and cash equivalents:						
Carrying amount	-	-	-	-	1,757,857	1,757,857
	-	79,348	134,194	17,110	4,229,648	4,460,300
Carrying amount						
	<u>AAA</u> \$'000	<u>AA</u> \$'000	<u>A</u> \$'000	<u>B</u> \$'000	<u>Not rated</u> \$'000	<u>Total</u> \$'000
December 31, 2009						
Financial assets:						
Carrying amount	-	-	-	12,728	2,656,809	2,669,537
Reinsurance assets:(excluding unearned premium reserve):						
Carrying amount	-	97,104	318,529	-	24,403	440,036
Insurance and other receivables: (excluding prepayments)						
Neither past due nor impaired	-	-	1,516	-	181,445	182,961
Past due but not impaired	-	-	-	-	3,679	3,679
Carrying amount	-	-	1,516	-	185,124	186,640
Cash and cash equivalents:						
Carrying amount	-	-	-	-	991,546	991,546
	-	97,104	320,045	12,728	3,857,882	4,287,759

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

25. Financial risk management (cont'd)

## (a) Credit risk (continued)

The carrying amounts of financial assets, reinsurance assets and cash and cash equivalents do not include any assets that are either past due or impaired.

The company has no financial assets or reinsurance assets that would be past due or impaired whose terms have been renegotiated.

The company does not hold any collateral as security or any credit enhancements, credit derivatives and netting arrangements that do not qualify for offset.

*Concentrations of credit risk*

The specific concentration of risk from one counterparty or group of connected counterparties with receivables of \$10 million (2009: \$20 million) or more is as follows:

	<u>2010</u>	<u>2009</u>
	\$'000s	\$'000s
Allied Insurance Brokers Limited	12,536	- *
Assurance Brokers Jamaica Limited	19,445	21,993
Fraser Fontaine & Kong Insurance Brokers Limited	<u>- *</u>	<u>21,663</u>
	<u>31,981</u>	<u>43,656</u>

\* The amount for 2010 fell below the \$10 million threshold. The amount for 2009 fell below the \$20 million threshold.

*Assets that are past due*

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

	<u>2010</u>				<u>Total</u>
	<u>Less</u>	<u>30 to 60</u>	<u>60-90</u>	<u>More</u>	
	<u>than 30</u>	<u>days</u>	<u>day</u>	<u>than 90</u>	
	<u>\$'000s</u>	<u>\$'000s</u>	<u>\$'000s</u>	<u>\$'000s</u>	<u>\$'000s</u>
December 31, Receivable arising from insurance and reinsurance contracts:					
- contract holders	112	-	-	-	112
- agents, brokers and intermediaries	<u>1,908</u>	<u>(117)</u>	<u>(280)</u>	<u>(552)</u>	<u>959</u>
	<u>2,020</u>	<u>(117)</u>	<u>(280)</u>	<u>(552)</u>	<u>1,071</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

25. Financial risk management (cont'd)

## (a) Credit risk (continued)

*Assets that are past due (cont'd)*

	2009				Total \$'000s
	Less than 30 days \$'000s	30 to 60 days \$'000s	60-90 day \$'000s	More than 90 days \$'000s	
December 31, Receivable arising from insurance and reinsurance contracts:					
- contract holders	5	1,187	-	(1,075)	117
- agents, brokers and intermediaries	<u>3,137</u>	<u>317</u>	<u>-</u>	<u>108</u>	<u>3,562</u>
	<u>3,142</u>	<u>1,504</u>	<u>-</u>	<u>(967)</u>	<u>3,679</u>

*Assets that are individually impaired:*

As of December 31, 2010 or 2009 the company had no impaired assets.

## (b) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims. The nature of the company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

*Management of liquidity risk*

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently the company invests in marketable securities that can be readily realised as its obligations under insurance contracts fall due, and in the event of reasonably foreseeable abnormal circumstances. The company also manages this risk by keeping a substantial portion of its financial assets in liquid form, in accordance with regulatory guidelines. The company is subject to a liquidity limit imposed by the regulator. The key measurement used for assessing liquidity risk is the ratio of liquid assets (as defined) to total liabilities. This ratio at the reporting date was 101 % (2009: 104%). The level set by the regulator is 95%.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201025. Financial risk management (cont'd)

## (b) Liquidity risk: (cont'd)

*Management of liquidity risk (cont'd)*

An analysis of the contractual maturities of the company's financial and insurance contract liabilities is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position.

	Contractual undiscounted cash flows					
	Carrying <u>Amount</u> \$'000s	Total cash <u>outflow</u> \$'000s	Less than <u>1 year</u> \$'000s	1-2 <u>years</u> \$'000s	2-5 <u>years</u> \$'000s	5-10 <u>years</u> \$'000s
December 31, 2010						
Financial liabilities						
- Accounts payable & accrued charges	53,014	53,014	53,014	-	-	-
- Insurance payables	110,095	110,095	110,095	-	-	-
-Due to fellow subsidiary	<u>2,378</u>	<u>2,378</u>	<u>2,378</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>165,487</u>	<u>165,487</u>	<u>165,487</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance contract liabilities:						
-Claims liabilities	<u>1,272,325</u>	<u>1,272,325</u>	<u>892,441</u>	<u>13,777</u>	<u>-</u>	<u>366,107</u>
	<u>1,437,812</u>	<u>1,437,812</u>	<u>1,057,928</u>	<u>13,777</u>	<u>-</u>	<u>366,107</u>
December 31, 2009						
Financial liabilities						
- Accounts payable & accrued charges	69,295	69,295	69,295	-	-	-
- Insurance payables	48,906	48,906	48,906	-	-	-
-Due to fellow subsidiary	<u>870</u>	<u>870</u>	<u>870</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>119,071</u>	<u>119,071</u>	<u>119,071</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance contract liabilities:						
-Claims liabilities	<u>1,451,422</u>	<u>1,451,422</u>	<u>1,026,787</u>	<u>13,713</u>	<u>-</u>	<u>410,922</u>
	<u>1,570,493</u>	<u>1,570,493</u>	<u>1,145,858</u>	<u>13,713</u>	<u>-</u>	<u>410,922</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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25. Financial risk management (cont'd)

## (c) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the company's assets, the amount of its liabilities and/or the company's income. Market risk arises in the company due to fluctuations in the value of liabilities and the value of investments held. The company is exposed to market risk on all of its financial assets.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the prior period.

*Management of market risk*

The Investment Committee manages market risks in accordance with its Investment Policy. The Committee reports regularly to the Board of Directors on its activities. For each of the major components of market risk the company has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the company at the reporting date to each major risk are addressed below.

## (i) Interest rate risk

Interest rate risk arises primarily from the company's investments. The company monitors its interest rate risk by continuously reviewing the impact of market movements on the interest rates of its investments.

Interest bearing financial assets is primarily represented by long term investments, which have been contracted at fixed and floating interest rates for the duration of the term.

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

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

25. Financial risk management (cont'd)

## (c) Market risk: (continued)

*Management of market risk (cont'd)*

## (i) Interest rate risk (cont'd)

At the reporting date the interest profile of the company's interest-bearing financial instruments was:

	Carrying amount	
	<u>2010</u>	<u>2009</u>
	\$'000s	\$'000s
Fixed rate instruments:		
Financial assets	<u>3,555,903</u>	<u>2,391,864</u>
Variable rate instruments:		
Financial assets	<u>500,000</u>	<u>1,148,511</u>

*Fair value sensitivity analysis for fixed rate instruments*

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

A change of 2.5% in interest rates would have increased or decreased equity by the amounts shown below:

	Equity	
	<u>Increase</u>	<u>Decrease</u>
	\$'000s	\$'000s
December 31, 2010		
Variable rate instruments	<u>(1,851)</u>	<u>1,905</u>
December 31, 2009		
Variable rate instruments	<u>(1,859)</u>	<u>1,924</u>

*Cash flow sensitivity analysis for variable rate instruments*

A change of 2.5% in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit	
	<u>Increase</u>	<u>Decrease</u>
	\$'000s	\$'000s
December 31, 2010		
Variable rate instruments	<u>1,301</u>	<u>(1,301)</u>
December 31, 2009		
Variable rate instruments	<u>4,787</u>	<u>(4,787)</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITEDNotes to the Financial Statements  
December 31, 201025. Financial risk management (cont'd)

## (c) Market risk: (cont'd)

## (ii) Equity price risk

Equity price risk arises from available-for-sale equity securities and mutual fund investments held by the company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the company's investment strategy is to maximise investment returns.

A change in the market price at the reporting date would result in an increase/(decrease), respectively, in equity and profit before tax by the amounts shown below.

	2010		2009	
	<u>Equity</u>	<u>Profit before taxation</u>	<u>Equity</u>	<u>Profit before taxation</u>
20% increase	55,255,163	-	52,250,053	-
20% decrease	<u>(34,829,283)</u>	<u>(22,495,128)</u>	<u>(20,846,788)</u>	<u>(16,197,753)</u>

## (iii) Currency risk:

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

The company incurs foreign currency risk primarily on insurance and reinsurance contracts and investments that are denominated in a currency other than the Jamaica dollar. Such exposure comprises the monetary assets and liabilities of the company that are not denominated in that currency. The principal foreign currency risk of the company is denominated in United States dollars (US\$). At December 31, 2010, net foreign currency assets aggregated approximately US\$12,590,000 (2009: US\$9,466,000). Exchange rates for the US dollar, in terms of Jamaica dollars were as follows:

At December 31, 2010: \$85.34

At December 31, 2009: \$89.11

In accordance with accounting policies applied consistently, exchange gains and losses are recognised in profit or loss when incurred [see note 4(k)].

## Sensitivity analysis

<u>Movement of J\$ against the United States dollar</u>	<u>Increase/(decrease) in profit before taxation</u>	
	<u>2010</u> \$'000s	<u>2009</u> \$'000s
10% weakening	(107,443)	(83,342)
2% strengthening	<u>21,489</u>	<u>16,849</u>

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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25. Financial risk management (cont'd)

## (d) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors, other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

## (e) Capital risk management

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

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

General insurers must maintain at least a minimum level of assets, capital and surplus to meet the liabilities of the company. The regulator requires the ratio of available assets to required assets to be 150% under the terms of the Minimum Asset Test (MAT).

During the current year the regulator approved the Minimum Capital Test ("MCT") as the replacement to the MAT, as the capital test for general insurance companies, however, the amendment had not yet been passed into Law at December 31, 2010. The minimum capital requirement will initially be set at 200% and will gradually be increased to 250% over a three year transition period.

GLOBE INSURANCE COMPANY OF JAMAICA LIMITED

Notes to the Financial Statements  
December 31, 2010

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25. Financial risk management (cont'd)

## (e) Capital risk management (cont'd)

The company has surpassed the requirements set by the regulator for both bases of measurement for 2010 as indicated below:

MAT				MCT			
Required		Achieved		Required		Achieved	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>150%</u>	<u>135%</u>	<u>157%</u>	<u>149%</u>	<u>200%</u>	<u>- %</u>	<u>269%</u>	<u>- %</u>

26. Preference dividends

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