

2018

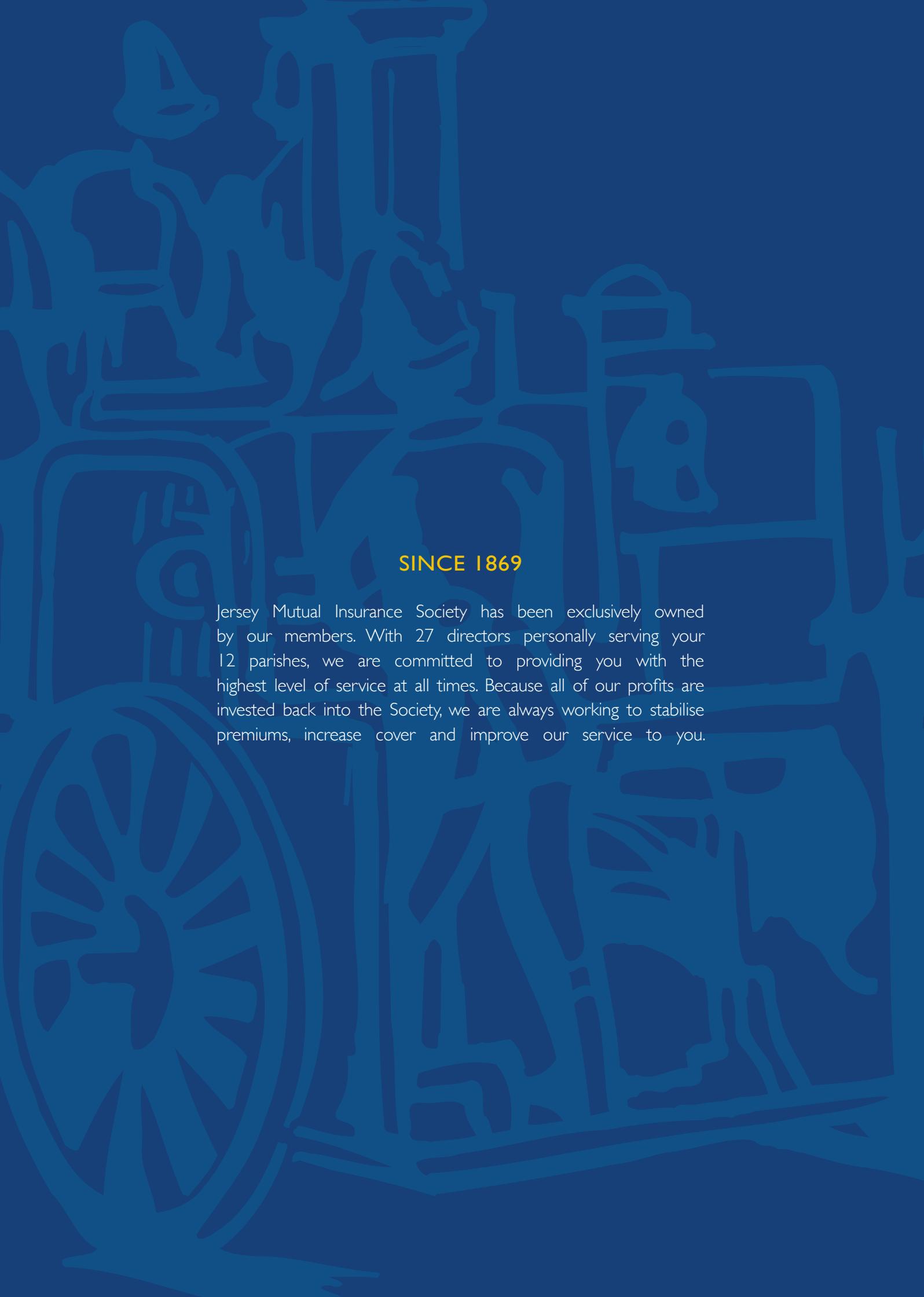


# *Report and Accounts*

Jersey Mutual Insurance Society

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[www.jerseymutual.com](http://www.jerseymutual.com)

Jersey Mutual is regulated by the Jersey Financial Services Commission



**SINCE 1869**

Jersey Mutual Insurance Society has been exclusively owned by our members. With 27 directors personally serving your 12 parishes, we are committed to providing you with the highest level of service at all times. Because all of our profits are invested back into the Society, we are always working to stabilise premiums, increase cover and improve our service to you.



**JERSEY MUTUAL INSURANCE SOCIETY, INCORPORATED**  
**149TH ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2018**



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## NOTICE OF 149TH ANNUAL GENERAL MEETING

### THE 149th ANNUAL GENERAL MEETING OF MEMBERS

will be held at St. Paul's Centre, Dumaresq Street, St Helier, on  
Friday the 7th day of December 2018 at 3.15 p.m.

#### **BUSINESS:**

1. Annual Report for 2018
2. Election of Directors
3. Appointment of Auditors
4. Vote Remuneration of the Directors for the ensuing year

An electronic copy of the financial statements, annual report and bye laws is available on the Society's website at the following address: [www.jerseymutual.com](http://www.jerseymutual.com)

S S Le Breton  
President

#### **Note**

Please contact Mr S Kavanagh, General Manager, if you would like to request a printed copy to be delivered to you by post.

If any Member has any questions on the financial statements, it would be appreciated if they would address them to the Society a few days before the meeting in order that they may be more fully considered and answered.



## BOARD OF ADMINISTRATION

The directors of the Society during the year ended 30 September 2018 were:

	Appointed	Retired
D LE QUESNE		25 December 2017
R J DE LA HAYE		25 December 2017
N LE COCQ		25 December 2017
P HENWOOD		25 December 2017
B RAFFRAY		25 December 2017
R LE CORNU		25 December 2017
K PALLOT		25 December 2017
I CARR		25 December 2017
C GUILLE MARRETT		25 December 2017
M BIRCH		
B BISSON		
T DU FEU		
R DUPRE		
A HARRIS		
A HARVEY		
S LE BRETON		
R LE MARCHAND		
J MCLINTON		
P WADE		
P PALLOT		
P WARREN		
C MURPHY		
D GERMAIN		
D HENRY		
P LE CLAIRE		
G MORRIS		
B DE STE CROIX		
D DE LA HAYE	25 December 2017	
S DRIEU	25 December 2017	
A J LAMY	25 December 2017	
EW LE BRUN	25 December 2017	
J LE MASURIER	25 December 2017	
G MENZIES	25 December 2017	
A MOLLET	25 December 2017	
D REYNOLDS	25 December 2017	
D WEBBER	25 December 2017	



## REPORT OF THE BOARD OF ADMINISTRATION

TO BE PRESENTED AT THE ONE HUNDRED AND FORTY NINTH  
ANNUAL GENERAL MEETING OF MEMBERS  
TO BE HELD ON FRIDAY THE 7TH DAY OF DECEMBER 2018 AT 3.15P.M.

The Board of Administration, in accordance with Article 22 of the Fundamental Rules, has pleasure in presenting their one hundred and forty ninth annual report and the audited financial statements for the year ended 30 September 2018.

### REVIEW OF THE BUSINESS

The Society is a mutual insurance society and its principal activity continues to be the transaction of general insurance of property and associated risks business in Jersey.

### BOARD OF ADMINISTRATION'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Administration (the Board) is responsible for preparing the Board's report and the financial statements in accordance with the Fundamental Rules of the Society and with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the Society and the profit or loss of the Society for that year. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the Society's transactions which disclose with reasonable accuracy, at any time, the financial position of the Society. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Society is licensed to operate as an insurance society by the Jersey Financial Services Commission. As such the Board is required to comply with the requirements of the Insurance Business (Jersey) Law 1996.

The Board confirms that these financial statements comply with these requirements.

### RESULTS

The financial statements show a total comprehensive deficit of £876,523 (2017: total comprehensive income of £361,016). This loss arises following the inclusion of an exceptional item due to reinsurers, further details of which can be seen below.

Total Members' funds show a decrease of £876,523 to £28,866,755 (2017: £29,743,278).

The value of the real and personal property insured during the year has increased by 3.6% (£166,745,299) to £4,828,755,622 as at 30 September 2018 as shown on page 9.

Gross premium written has increased in the year by 0.9% (£59,242) to £6,576,869. Discounts given to Members during the year amounted to £2,052,940 (2017: £2,015,181).



## REPORT OF THE BOARD OF ADMINISTRATION *continued*

### RESULTS *continued*

An analysis of claims paid is shown on page 8. A list of claims is available for inspection at the Society's office.

The value of the financial investment portfolio decreased in the year by £433,866, but overall it still exceeds cost by £851,939 at 30 September 2018.

Realised net gains on the disposal of certain financial investments during the year amounted to £200,081 (2017: £775,012).

In accordance with the Insurance Business (Solvency Margin) (Jersey) Order 1996, the Society is restricted in its investment strategy as it must maintain 75% of assets as approved assets (primarily quoted government securities and Eurobonds approved by the Jersey Financial Services Commission). Our investment brokers, with our approval, have therefore continued with a cautious approach, maintaining a high level of investments in fixed income securities. For the coming year we intend to maintain the current conservative investment policy in order to preserve and grow the value of the investment portfolio.

Following receipt of an updated property valuation, the value of the Society's investment property at 28 Halkett Place was noted to have fallen by £205,000 to £575,000.

### IRREGULAR ACTIVITY

The Society has recently become aware of potential fraudulent activity that has occurred over a number of years and is currently undertaking detailed investigations as to the significance and impact of this matter. However, the directors are satisfied that: -

1. The Society's members remain fully insured in line with the terms and conditions of their respective insurance schedule;
2. The Society's reinsurance partners are fully aware of the situation and continue to fully support the Society. Furthermore, the Society has recently renewed its reinsurance programme, as per the previous terms, with effect from 1 October 2018;
3. As detailed in the balance sheet, the Society retains significant reserves backed by a portfolio of liquid investments; and
4. As a result, the continued strength of the Society and the interests of its members have not been substantially compromised.

The Society has informed its regulator, the Jersey Financial Services Commission, and reported the situation to the Joint Financial Crimes Unit. All relevant parties will be kept apprised of the situation.

Having taken legal advice from our lawyers, the Society has put into place all appropriate measures to aid the recovery of such sums and in order to mitigate its losses where possible. Furthermore, in light of the uncertainty surrounding the recoverability of any such amounts, no provision has been made in the financial statements in this regard.

While the full impact of such activity has yet to be determined, it appears that some amounts due to reinsurers over a number of years may have been inappropriately withheld. As a result, a provision has been included in these financial statements for the year ended 30 September 2018 amounting to £343,645 as due to reinsurers in this respect.



## REPORT OF THE BOARD OF ADMINISTRATION *continued*

### IRREGULAR ACTIVITY *continued*

Investigations as to the extent and significance of this activity remain ongoing and the directors will update members in due course. In light of an ongoing criminal investigation, the Society is not in a position to disclose further information at this juncture.

### STRATEGY

The Society's continuing success is dependent on many factors including:

- appropriate risk selection;
- pricing;
- adherence to its underwriting principles; and
- careful management of its claims.

Above all we believe that by providing a quality customer service the Society will engender continued loyalty of its membership and create a basis of recommendation to others.

We shall look to continue to deliver on these objectives thereby enabling us to consolidate our position as a leading provider of household and other property insurances within the Island and concentrate our efforts on achieving manageable growth within the local marketplace.

### REINSURANCE AGREEMENTS

Your Directors have pleasure in reporting that under the agreements entered into by the Society with Lloyd's Underwriters and Reinsurers, the latter, during the past year, accepted all individual risks above £17,500 in Class I, subject to an event limit of £20 million. In addition to the foregoing, Lloyd's Underwriters and Reinsurers indemnified the Society for each and every ultimate net loss occurring under all policies covering Fire, Lightning, Explosion and Comprehensive Risks (including All Risks) which exceeded £225,000, and in respect of Public Liability and Employer's Liability which exceeded £200,000.

### FINANCIAL INSTRUMENTS

Financial instruments held by the Society include simple instruments such as equities, bonds, borrowings, other creditors and debtors, cash, and more complex instruments incorporated within the managed portfolio of investments.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Board, through the Supervisory Committee and Management ensures that the risks which the business faces are managed in a prudent and conservative manner. The key tools to enable this to happen are our Policies & Procedures and Business Risk Assessment plan.

The key risks which the Society face are as follows: -



## REPORT OF THE BOARD OF ADMINISTRATION *continued*

### PRINCIPAL RISKS AND UNCERTAINTIES *continued*

#### **Insurance Risk**

The insurance risk the Society faces arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. This is the essence of the business and there is a framework of measures which will ensure that such liabilities are managed prudently and appropriately which include, where necessary, the use of independent Loss Adjusters.

Furthermore, the Society has an extensive reinsurance programme which offsets the majority of its exposures to all claims.

#### **Credit Market & Liquidity Risks**

The assets of the Society are considerable and the investment portfolio is managed on a conservative investment strategy by local professional investment managers via a Discretionary Mandate arrangement. These assets are considered to be very satisfactory for the contingency and liquidity purposes of the Society and exceed the local minimum regulatory capital requirements.

Given the Society's reliance on its reinsurance partners, our credit risk is substantial. This arises from the risk of a loss if another party fails to perform its obligations or fails to perform in a timely or appropriate fashion. Contractually the Society pays its reinsurers quarterly in arrears with the claims being paid out by the Society from the premiums received.

Our reinsurers Standard & Poor's ratings are monitored and their financial strength is reviewed annually.

#### **Operational Risk**

The risks of loss resulting from inadequate or failing processes, people and systems both internally and externally are duly recognised by the Board and are subject to regular review. As such a number of mechanisms are in place which mitigate their effect should they arise and prevent them arising in the first instance.

Our Disaster Recovery plans embrace the provision of a full duplicate computer system held within a bespoke data centre off island which has the benefit of being professionally managed and monitored.

### FUTURE DEVELOPMENTS

The growth in Jersey's economy has continued in 2018, albeit at a much slower pace than in recent history. The world economy remains challenging with the effects of quantitative easing still being felt in asset prices across the board. The continued uncertainty surrounding the outcome of Brexit, the level of Italian sovereign debt and the trade policies of Donald Trump's America are headwinds to the global economic environment and financial markets. In this environment, we are expecting there will be continuing downward pressure on premiums and also the potential for an increase in claims frequency. We continually review our underwriting criteria and claims handling processes to ensure profitability is maximised in these market conditions.

Following discussions with the taxes office, it is expected that from 2019 that the Society will be required to pay tax on its net investment income, reverting to the position prevailing before the 0/10 tax regime was introduced in Jersey in 2009.

During 2019 we aim to grow premiums written consistent with previous years whilst looking to improve combined ratios, where possible. We will actively pursue good quality new business where such opportunities arise, whilst maintaining policy retention despite expected pressure on rates and claims, as mentioned. The overall level of profitability for the ensuing year will continue to be in the main dependant on investment returns, albeit that they themselves remain a source of significant uncertainty in the light of market movements.



## REPORT OF THE BOARD OF ADMINISTRATION *continued*

### DIRECTORS

In accordance with Article 22 of the Fundamental Rules, you are called upon to elect nine directors to replace the following members for a term of three years to commence from 25 December 2018:

M BIRCH	ST SAVIOUR
B BISSON	ST CLEMENT
T DU FEU	ST PETER
R DUPRE	ST JOHN
A HARRIS	ST BRELADE
A HARVEY	ST PETER
S LE BRETON	ST HELIER
R LE MARCHAND	ST MARY
J MCLINTON	ST HELIER

### RULES OF THE SOCIETY

The contingent liability of Members is set out in rules 10, 16 and 26 of the Fundamental Rules of the Society, copies of which are available on request from the General Manager. The Board wishes to state that, in their opinion, calling upon Members to contribute a sum of £5.00 in accordance with these Rules is a remote possibility, particularly in view of the Society's reinsurance arrangements.

### WEBSITE

As part of a 'green' policy our financial statements are published on our website. A limited number of printed copies will be available on request (see Notice of Meeting).

### AUDITORS

Alex Picot act as auditors for the Society, and have indicated their willingness to continue in office for the coming year.

### VOTE OF THANKS

The Board wishes to record a vote of thanks to all members of staff for all the hard work that they have carried out during a busy but successful year.

S S Le Breton                      President

S M Kavanagh                      General Manager

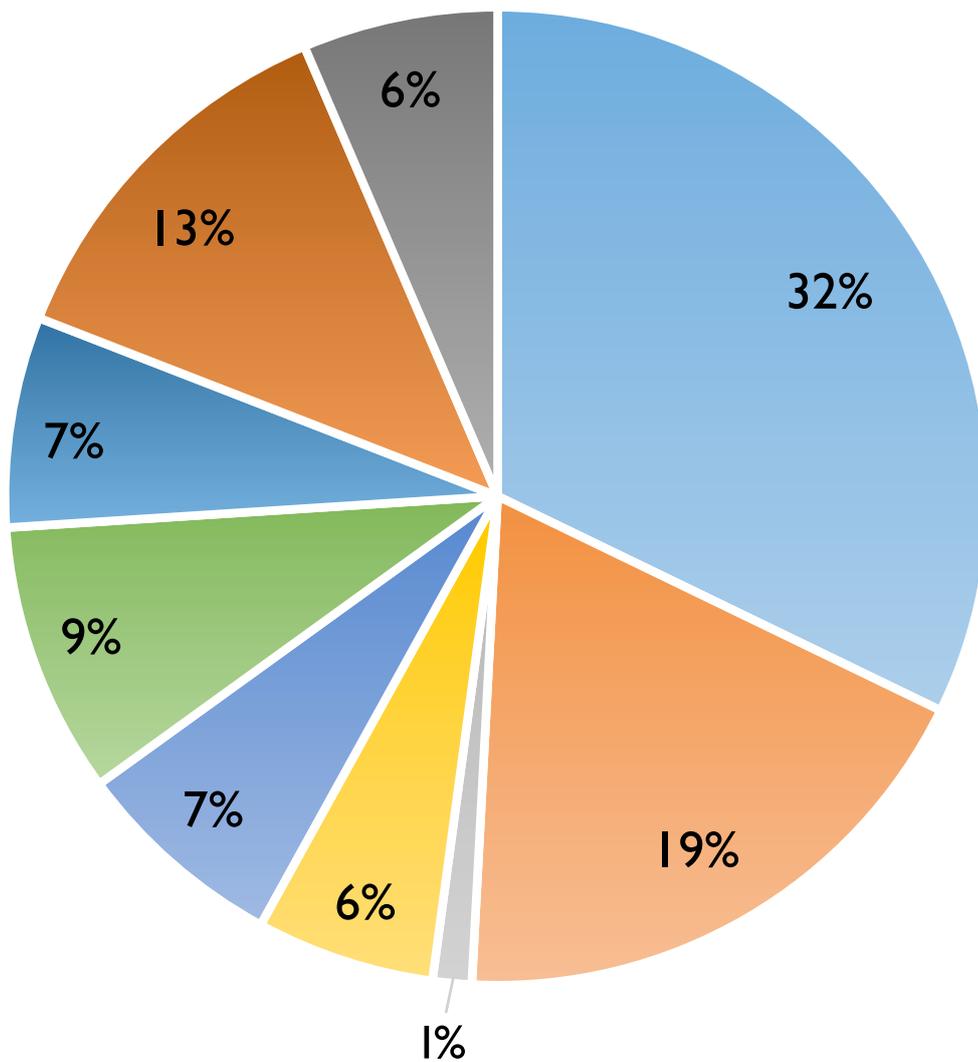
16 November 2018                      Date



CLAIMS PAID

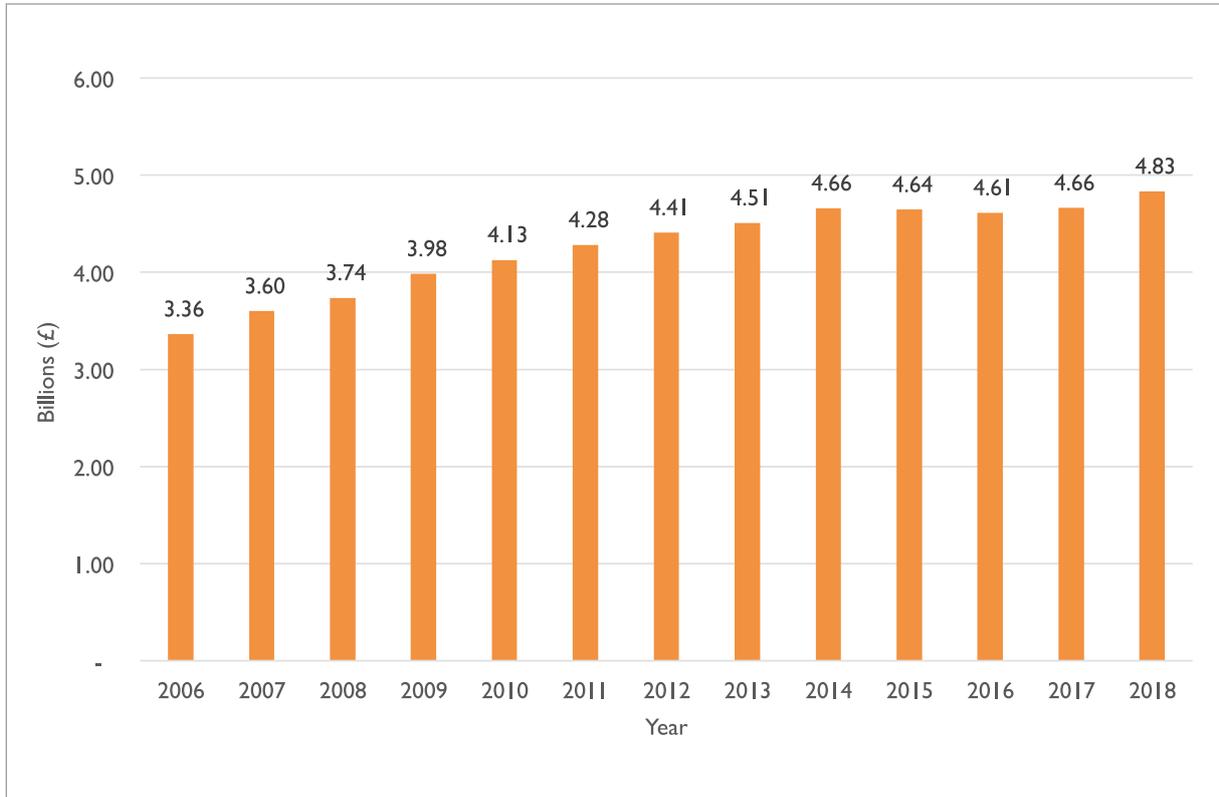
SUMMARY OF CLAIMS PAID DURING 2018

- Burst Pipes 32% (2017: 39%)
- Storm 19% (2017: 30%)
- Fire 1% (2017: 2%)
- Accidental Damage 6% (2017: 4%)
- Water Overflow 7% (2017: 6%)
- Subsidence 9% (2017: 3%)
- All Risks 7% (2017: 9%)
- Damage to Underground Services 13% (2017: 2%)
- Other 6% (2017: 5%)





### VALUE OF PROPERTY INSURED





## INDEPENDENT AUDITORS' REPORT

To the members of Jersey Mutual Insurance Society, Incorporated



95-97 Halkett Place  
St. Helier, Jersey  
Channel Islands JE1 1BX

### Disclaimer of opinion

We were engaged to audit the financial statements of the Jersey Mutual Insurance Society, Incorporated for the year ended 30 September 2018, which comprise the Statement Of Comprehensive Income, the Balance Sheet, the Statement Of Changes In Members' Funds, the Statement Of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation are the United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

We do not express an opinion on the accompanying financial statements of the Society. Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

Prior to the commencement of our audit, we were made aware by the management of the Society that during the financial year a possible fraud had been discovered which has occurred over a number of years. As at the date of our report, and as detailed in note 19 to the financial statements, management was still in the process of confirming a fraud had occurred and quantifying its effect on the financial statements. We were unable to confirm or verify by alternative means:

- Whether certain expenditure items in the financial statements are materially overstated;
- Whether there is a material sum due to the Society's reinsurers at the year end, notwithstanding the amount already accrued in the financial statements; and
- Whether there is a material sum due to the Society as reimbursement for the possible fraud, and if so, whether it can be recovered.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of certain items of expenditure, accounts payable, sundry debtors, Members' Funds, and the elements making up the Statement of Comprehensive Income, the Statement of Changes in Members' Funds and the Statement of Cash Flows.

### Matters on which the auditor is required to report by exception

Notwithstanding our disclaimer of an opinion on the financial statements, in the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit performed, subject to the pervasive limitation described above, we have not identified material misstatements in the Report of the Board of Administration.



## INDEPENDENT AUDITORS' REPORT

To the members of Jersey Mutual Insurance Society, Incorporated *continued*



95-97 Halkett Place  
St. Helier, Jersey  
Channel Islands JE1 1BX

### **Matters on which the auditor is required to report by exception *continued***

Arising from the limitation of our work referred to in the Basis for disclaimer of opinion paragraph above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

### **Responsibilities of the board of administration**

As explained more fully in the board of administration's responsibilities statement, the board of administration are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts". The board of administration are also responsible for such internal control as they determine 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, the board of administration are responsible for assessing the Society'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 the board of administration either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our responsibility is to conduct an audit of the Society's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

This report is made solely to the Society's members, as a body in accordance with the Fundamental Rules of the Society and Article 18(1) of the Insurance Business (Jersey) Law 1996. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.



**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 September 2018

	<i>Notes</i>	<i>Year ended 30-Sep-18 £</i>	<i>Year ended 30-Sep-17 £</i>
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written before discounts to members		6,576,869	6,517,627
Discounts given to members		(2,052,940)	(2,015,181)
Gross premiums written net of discounts given to members		<u>4,523,929</u>	<u>4,502,446</u>
Outward reinsurance		(3,212,789)	(3,173,757)
Change in the provision for unearned premiums	16	(46,442)	164,104
Change in the provision (reinsurers' share)	16	<u>35,964</u>	<u>(108,264)</u>
<b>Total technical income</b>		<u><b>1,300,662</b></u>	<u><b>1,384,529</b></u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Claims paid			
- gross amount		2,152,448	1,937,181
- reinsurers' share		(2,078,816)	(1,821,501)
		<u>73,632</u>	<u>115,680</u>
Change in provision for claims			
- gross amount	16	557,476	(245,500)
- reinsurers' share	16	(346,817)	254,536
<b>Claims incurred net of reinsurance</b>		<u><b>284,291</b></u>	<u><b>124,716</b></u>
Exceptional item – amounts due to reinsurers'	19	343,645	-
Net operating expenses - administrative expenses	8	1,623,944	1,666,987
<b>Total technical charges</b>		<u><b>2,251,880</b></u>	<u><b>1,791,703</b></u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u><b>(951,218)</b></u>	<u><b>(407,174)</b></u>



**STATEMENT OF COMPREHENSIVE INCOME** *continued*  
For the year ended 30 September 2018

	<i>Notes</i>	<i>Year ended 30-Sep-18 £</i>	<i>Year ended 30-Sep-17 £</i>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<b>(951,218)</b>	<b>(407,174)</b>
<b>NON-TECHNICAL ACCOUNT</b>			
Investment return	10	948,166	1,633,818
Movement in unrealised gains on financial investments		(433,866)	(717,815)
Movement in valuation of investment property	12	110,000	-
Foreign exchange gains/(losses)		9,713	(6,099)
Investment management and custody fees		(169,424)	(168,907)
Repairs to investment property		(284,894)	(17,807)
		<u>179,695</u>	<u>723,190</u>
<b>(Loss) / profit on ordinary activities before tax</b>		<b>(771,523)</b>	<b>316,016</b>
Taxation – credit	11	-	45,000
<b>(Loss) / profit for the financial year</b>		<b>(771,523)</b>	<b>361,016</b>
<b>Other comprehensive income</b>			
Movement in valuation of owner occupied property	12	(105,000)	-
<b>Total comprehensive (deficit) / income for the year</b>		<b><u>(876,523)</u></b>	<b><u>361,016</u></b>

All results are derived from continuing operations.

There are no recognised gains or losses other than the total comprehensive (deficit) / income attributable to the members of the Society of £(876,523) in the year ended 30 September 2018 and £361,016 in the year ended 30 September 2017.

The notes on pages 18 to 36 form an integral part of these financial statements.



**BALANCE SHEET**  
As at 30 September 2018

	Notes	<u>30-Sep-18</u> £	<u>30-Sep-17</u> £
<b>ASSETS</b>			
<b>INVESTMENTS</b>			
Land and buildings	12	2,285,000	2,280,000
Other financial investments	13	<u>26,861,555</u>	<u>27,204,288</u>
		<u>29,146,555</u>	<u>29,484,288</u>
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Provision for unearned premiums	16	1,617,995	1,582,031
Claims outstanding	16	<u>1,686,782</u>	<u>1,339,965</u>
		<u>3,304,777</u>	<u>2,921,996</u>
<b>DEBTORS</b>			
Debtors due from members		59,188	125,174
Debtors arising out of reinsurance operations		<u>660,742</u>	<u>335,896</u>
		<u>719,930</u>	<u>461,070</u>
<b>OTHER ASSETS</b>			
Tangible assets	14	21,517	34,775
Deferred tax	11	45,000	45,000
Cash at bank and broker		<u>912,475</u>	<u>871,811</u>
		<u>978,992</u>	<u>951,586</u>
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued investment income		146,533	145,344
Claim payments and prepayments	17	<u>457,518</u>	<u>556,967</u>
		<u>604,051</u>	<u>702,311</u>
<b>TOTAL ASSETS</b>		<u><u>34,754,305</u></u>	<u><u>34,521,251</u></u>



**BALANCE SHEET *continued***  
**As at 30 September 2018**

	<i>Notes</i>	<i>30-Sep-18</i>	<i>30-Sep-17</i>
		£	£
<b>LIABILITIES</b>			
<b>RESERVES</b>			
Members' funds		28,866,755	29,743,278
<b>TECHNICAL PROVISIONS</b>			
Provision for unearned premiums gross amount	16	2,474,978	2,428,536
Claims outstanding gross amount	16	1,954,250	1,396,774
		4,429,228	3,825,310
<b>CREDITORS</b>			
Creditors due to reinsurers		1,245,403	834,211
Other creditors		212,919	118,452
		1,458,322	952,663
<b>TOTAL LIABILITIES</b>		<b>5,887,550</b>	<b>4,777,973</b>
<b>TOTAL MEMBERS' FUNDS AND LIABILITIES</b>		<b>34,754,305</b>	<b>34,521,251</b>

The notes on pages 18 to 36 form an integral part of these financial statements.

These financial statements on pages 12 to 36 were approved and authorised for issue by the Board of Administration and were signed on their behalf by:

S S Le Breton                      President

S M Kavanagh                      General Manager

19 November 2018                      Date



**STATEMENT OF CHANGES IN MEMBERS' FUNDS**  
**As at 30 September 2018**

	<i>Year ended 30-Sep-18</i>	<i>Year ended 30-Sep-17</i>
<i>Notes</i>	<i>£</i>	<i>£</i>
<b>Balance brought forward</b>	<u>29,743,278</u>	<u>29,382,262</u>
(Loss) / profit for the financial year	(771,523)	361,016
Other comprehensive income for the year	(105,000)	-
<b>Total comprehensive (deficit) / income for the year</b>	<u>(876,523)</u>	<u>361,016</u>
<b>Balance carried forward</b>	<u>28,866,755</u>	<u>29,743,278</u>

The notes on pages 18 to 36 form an integral part of these financial statements.



**STATEMENT OF CASH FLOWS**  
For the year ended 30 September 2018

	<i>Year ended 30-Sep-18</i>	<i>Year ended 30-Sep-17</i>
<i>Notes</i>	<u>£</u>	<u>£</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
(Loss) / profit before tax	(771,523)	316,016
Depreciation charges	13,258	13,258
Income from financial investments	(670,967)	(756,344)
Interest income	(19,974)	(18,189)
Realised and unrealised gains on financial investments	233,785	(57,197)
Movement in valuation of investment property	(110,000)	-
Movement in technical provision	221,137	(136,661)
Movement in other debtors and creditors	346,249	319,445
	<u>(758,035)</u>	<u>(319,672)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Sale of investments	6,123,161	10,005,619
Purchase of investments	(6,064,713)	(10,517,249)
Income from financial investments	669,617	776,498
Interest income	20,134	18,945
Repayment of staff loans	50,500	50,000
	<u>798,699</u>	<u>333,813</u>
<b>Net cash inflow from investing activities</b>	<b>798,699</b>	<b>333,813</b>
<b>Net increase in cash and cash equivalents</b>	<b>40,664</b>	<b>14,141</b>
Cash and cash equivalents at 1 October	<u>871,811</u>	<u>857,670</u>
<b>Cash and cash equivalents at 30 September</b>	<b><u>912,475</u></b>	<b><u>871,811</u></b>
Cash and cash equivalents consist of:		
Cash at bank and in hand - society	294,193	197,581
Cash at bank and in hand - investment broker	618,282	674,230
	<u>912,475</u>	<u>871,811</u>

The notes on pages 18 to 36 form an integral part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS 30 September 2018

### I. GENERAL INFORMATION

Jersey Mutual Insurance Society, Incorporated ('the Society') is incorporated in Jersey under the Insurance Business (Jersey) Law 1996 with company number 35913, and transacts general insurance business in Jersey, Channel Islands.

The Society is a mutual organisation, has only members and reinvests surpluses. The Society arranges insurance for Class I (Non – Hazardous) risks being primarily private dwelling houses split between owner occupied and those rented out including associated liability and other risks.

The address of its registered office is 74 Halkett Place, St Helier, Jersey, JE1 1BT.

### 2. STATEMENT OF COMPLIANCE

The financial statements of the Society have been prepared under the historical cost convention, adjusted by the revaluation of freehold property and quoted investments, in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Insurance Business (Jersey) Law 1996.

The financial statements have been prepared in compliance with the provisions of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

### 3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### a. Basis of preparation

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Society accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

#### b. Going concern

Having assessed the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details in this area have been considered by the Society in Note 19.

#### c. Exemptions for qualifying entities under FRS 102

The Society is not a member of a group and hence is not able to take advantage of any disclosure exemptions afforded to such entities.



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**3. ACCOUNTING POLICIES *continued***

**d. Foreign currency**

The Society's financial statements are presented in pounds sterling, which is also the functional currency of the Society.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each year end foreign currency monetary items are translated using the closing rate.

Non monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non technical account.

**e. Insurance contracts**

*Classification of insurance contracts*

Insurance contracts are defined as a contract under which one party accepts significant insurance risk.

As a guideline, the Society defines an insurance contract as a contract under which the Society accepts significant insurance risk from another (the Member) by agreeing to compensate the Member if a specified uncertain future event adversely affects the Member.

All of the Society's insurance products are classified as insurance contracts.

The results are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

*Premiums written*

General business premiums written reflect gross business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Society, less cancellations.

*Unearned premiums*

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the reporting balance sheet date.

*Acquisition costs*

Outward reinsurance portfolio premiums are accounted for in the same reporting period as the premiums for the related direct business being reinsured.

*Claims*

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims together with any adjustments to claims from previous years.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**3. ACCOUNTING POLICIES** *continued*

**e. Insurance contracts continued**

*Claims provisions and related reinsurance recoveries*

Where possible, the Society adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the business class and the extent of the development of each accident year.

*Reinsurance*

Reinsurance premiums are accounted for when paid or payable depending on the terms of the individual contract. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having regard to collectability.

**f. Employee benefits**

The Society provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

*Short term benefits*

Short term benefits, including holiday pay and other similar non monetary benefits, are recognised as an expense in the period in which the service is received.

*Defined contribution pension plans*

The Society operates three defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Society pays fixed contributions into a separate entity. Once the contributions have been paid the Society has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Society in independently administered funds.

**g. Taxation**

Tax is recognised in the profit and loss account within the statement of comprehensive income.

Deferred tax is recognised in respect of all timing differences, which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different to those in which they are recognised in the financial statements. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the year-end date.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Technical income is not taxed. Jersey income tax of 20% is payable on rental income net of attributable expenses. Under the 0/10 regime introduced in Jersey with effect from the 2009 year of assessment the Society, being a mutual trading organisation, is taxed at 0% on investment income. With effect from 2019, as further detailed in the Report of the Board of Administration, this is expected to change.

**h. Land and buildings**

Land and buildings that are not classed as investment properties are stated at valuation. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value of land and buildings is usually determined from market based evidence by appraisal that is normally undertaken by professionally qualified valuers. No depreciation is charged as it is considered immaterial.



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**3. ACCOUNTING POLICIES *continued***

**h. Land and buildings *continued***

Revaluation gains on owner occupied properties are taken to other comprehensive income except to the extent that those gains reverse a revaluation loss on the same property that was previously recognised as an expense.

Revaluation losses on owner occupied properties are taken to other comprehensive income to the extent they reverse a previously recognised revaluation gain with any further loss recognised in the non technical account.

Investment property is property held by the Society to earn rentals and for capital appreciation, rather than for (a) use in the production or supply of goods or services or for administrative purposes or (b) sale in the ordinary course of business.

Investment property is revalued periodically at open market value, by qualified external valuers and reassessed annually by the Directors.

The aggregate surplus or deficit on revaluation of investment properties is taken to the non technical account.

**i. Tangible assets**

Tangible assets, excluding land and buildings (as detailed in note 3h), are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs. Items purchased for less than £1,000 are written off to revenue in the year of purchase.

*Depreciation*

Assets exceeding £1,000 are depreciated from the time when they are available for use. Depreciation is calculated using the straight line method to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Computer equipment and software	20% per annum
Office furniture and equipment	10% per annum

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively. Depreciation is charged to the technical account and is included in Net Operating Expenses (see Note 8).

*De recognition*

Tangible assets are de recognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised through profit and loss and included in Net Operating Expenses (see Note 8).

**j. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, and deposits held on call with banks and investment brokers with original maturities of three months or less.

**k. Financial assets**

Investments, consisting of listed equity shares, money market funds and fixed interest securities, are stated at current market values provided by the Society's investment brokers at the balance sheet date.



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**3. ACCOUNTING POLICIES *continued***

**k. Financial assets *continued***

*Shares and other variable yield securities and units in unit trusts – at fair value through profit and loss*

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Society's Board. The Society's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities in accordance with the solvency provisions set out by the Jersey Financial Services Commission.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. 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.

The fair values of financial instruments that are not traded in an active market (for example, unlisted equities), are established by the brokers using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. The valuation techniques used are further described in Note 4.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'movement in unrealised gains on financial investments' in the period in which they arise.

*Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Society intends to sell in the short term or that it has designated as fair value through profit or loss. Material loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the Board as having prudent regard to the likely realisable value.

*Impairment of financial assets*

All financial assets are stated at fair value.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period within the statement of comprehensive income.

*Loans secured by mortgages*

Loans receivable are recognised at the present value of cash receivable.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**3. ACCOUNTING POLICIES** *continued*

**l. Financial liabilities**

Creditors are financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest rate method.

**m. Investment return**

Interest, rents and expenses are accounted for on an accruals basis.

Dividend income is recognised in respect of fixed income securities on an accruals basis and in respect of equity shares on a cash receipts basis.

Realised investment gains and losses carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value.

Movements in unrealised investment gains and losses represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date or purchase value during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment return is recorded in the non technical account.

**n. Related party transactions**

The Society discloses transactions with related parties. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Society's financial statements. More information regarding related party transactions has been included in Note 20.

**4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY**

Estimates and judgments 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. Significant judgements in applying the accounting policies**

*Significant insurance risk*

Insurance contracts are those contracts that transfer significant insurance risk; they do not transfer financial risk.

As a guideline, the Society defines an insurance contract as a contract under which the Society accepts significant insurance risk from another (the Member) by agreeing to compensate the Member if a specified uncertain future event adversely affects the Member.

All of the Society's insurance products are classified as insurance contracts.

*Allowance for risk and uncertainty within claims outstanding*

The Society takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. The provisions are based on information available at the year-end reporting date. Significant delays are sometimes experienced in the quantification of certain claims, and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet reporting date.



NOTES TO THE FINANCIAL STATEMENTS *continued*  
30 September 2018

**4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION UNCERTAINTY** *continued*

a. Significant judgements in applying the accounting policies *continued*

*Allowance for risk and uncertainty within claims outstanding continued*

Consideration is given to the probability and magnitude of future experience being more adverse than previously assumed, such that no adverse run off deviation is envisaged. Given the uncertainty in establishing claims provisions, subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided.

**b. Sources of estimation uncertainty**

The Society 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 addressed below.

*The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Society's most critical accounting estimate. The carrying amount of the liability is £1,954,250 (2017: £1,396,774). The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and case law.

*Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is £8,014,084 (2017: £9,993,749). The broker uses their judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. See Note 5 for discussion of the related risks.

*Fair value of land and buildings*

The valuation of the Society's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the property market. The carrying value at year end is £2,285,000 (2017: £2,280,000).

The investment property valuation contains a number of assumptions upon which independent, professionally qualified valuers have based their valuation of the Society's properties. The assumptions on which the property valuation reports have been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2012. However, if any assumptions made by the property valuer prove to be inaccurate, this may mean that the value of the Society's properties differs from their valuation, which could have a material effect on the Society's financial position.

*Unearned premiums*

The estimation of unearned premiums is calculated on a cash basis. The estimate assumes cash received in one month pertains to policies being effective the following month and that these policies are all annual. This estimation technique is in line with historic treatment.



## NOTES TO THE FINANCIAL STATEMENTS *continued* 30 September 2018

### 5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS

The Society issues contracts that transfer insurance risk. The Society is also exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and Member liabilities.

This section summarises these risks and the way the Society manages them:

#### a. Insurance risk

For a portfolio of insurance contracts the principal risk that the Society face are that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of 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 insurance contracts, the smaller the relative variability about the expected outcome will be. Factors that aggravate insurance risk include lack of risk diversification in terms of class and amount of risk, geographical location and type of industry covered. A more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Society has developed its insurance underwriting strategy in recognition of the limited type of insurance contracts it offers and has set its reinsurance programme accordingly.

The frequency and severity of claims can be affected by several factors, such as the risk profile of the business, inflation, legal rulings and weather events. The Society manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well controlled in terms of class and amount of risk, industry and geography. As a mutual organisation it has consistently been the philosophy of the Society to reserve cautiously. This conservative approach is designed to create a margin held in reserves to allow for adverse developments in outstanding claims. The recorded claims reserves continue to include a margin above projected best estimate of ultimate claims costs.

Underwriting limits are in place to enforce appropriate acceptance criteria. The Society has the right not to renew individual policies, to reprice the risk on renewal, or to impose deductibles or other conditions. It also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Society to pursue third parties for payment of some or all costs.

The reinsurance arrangements include risk excess which limits the financial impact from any one claim and catastrophe coverage. The greatest likelihood of significant losses arises from storm or flood damage, and catastrophe. The Society has reinsurance cover to limit its exposure to loss at a level approved by the Board.

The risk that the current estimates of claim liabilities will be different from those ultimately paid out on existing claims is minimised through the use of active claims management, regular reviews of claims estimates, and the use of statistical methods to assess the likely ultimate cost of claims.

The Society is exposed at any given time to latent risk which, by its very nature is uncertain and in many cases is only expected to emerge in the long term. Whilst every effort has been made to ensure the claims provision appropriately allows for such, there remains uncertainty in the eventual reserve outcome as a result.



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS *continued***

**a. Insurance risk *continued***

This uncertainty can change from year to year depending on the timing and magnitude of these items. The Society has identified the major uncertainties surrounding the future development of claims. Where appropriate, this has been allowed for. An additional provision is also held within the claims provision to cover the uncertainty around further fluctuations in the development of claims.

The Society has determined that in view of the insurance contracts it makes available to Members, being property and associated risks, that all claims are adequately assessed and reserved and typically resolved within 12 months of the incident date.

**b. Financial risks**

*Management objectives*

The Society is exposed to a range of financial risks, in particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Society faces due to the nature of its investment and liabilities are interest rate risk and equity price risk.

The Society's overall risk management programme focuses on the need to comply with stringent regulations laid down by the regulator. These are designed to minimise potential adverse effects on the Society's financial performance. It manages these positions within an asset liability management (ALM) framework using the services of an independently regulated investment management firm with the aim of achieving investment returns in excess of obligations under insurance contracts. The Society produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Society's key management personnel. The principal technique of the Society's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Society's ALM is also integrated with the management of the financial risks associated with the Society's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Society does not use hedge accounting.

The Society has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Society's ALM framework.

*Market risk - interest rate risk*

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

*Market risk - equity price risk*

The Society is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe and North America).



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS** *continued*

**b. Financial risks continued**

*Market risk - equity price risk continued*

The Society has a defined investment policy which sets limits on the Society's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the Society's price risk arising from its investments in equity securities.

Investment Management meetings are held quarterly. At these, senior investment managers meet to discuss investment return and concentration.

Due to our investment portfolio comprising of more bonds than equities, the Directors do not consider it necessary to carry out any sensitivity analysis.

*Market risk - currency risk*

The Society is not exposed to external currency risk outside the normal investment portfolio.

*Credit risk*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers; and
- counterparty risk with respect to derivative transactions.

The Society manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments in accordance with Jersey Financial Services Commission solvency requirements. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Administration.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Society's liability as primary insurer. If a reinsurer fails to pay a claim, the Society remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the year. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non performance by these counterparties. The Society's broker does not hold open derivative positions.

The total portfolio includes bond funds and we can confirm that the average overall credit rating of the bond portfolio, including funds, is not lower than BBB, Baa3 or an equivalent grade of investment rating.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS** *continued*

**b. Financial risks continued**

*Liquidity risk*

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the society is the obligation to pay claims to Members as they fall due.

*Capital management*

The Society maintains an efficient capital structure from a combination of Members' funds and investments, consistent with the Society's risk profile and the regulatory and market requirements of its business.

The Society's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its Members, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets; and
- to allocate capital efficiently to support growth.

The Society has a number of sources of capital available to it, however, it has no debt.

The Society is externally regulated by the Jersey Financial Services Commission and is subject to insurance solvency regulations set by the Jersey Financial Services Commission which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The Society has complied with all externally imposed capital requirements throughout the year.

*Fair value estimation*

The following table presents the Society's assets measured at fair value, by valuation method, at 30 September 2018 and at 30 September 2017. No liabilities were measured at fair value at 30 September 2018 or 30 September 2017.

The different valuation methods are:

- Level 1. The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in Note 3(k). Instruments included in Level 1 comprise primarily FTSE listed equity investments.
- Level 2. If observable prices are available for recent arm's length transactions, the instrument is included in Level 2. The Society has units in unit trust investments which are classified as Level 2. The valuations for these reflect the price of a recent transaction for an identical asset. The Society's brokers closely monitor the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured.
- Level 3. If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
30 September 2018

**5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS** *continued*

**b. Financial risks continued**

*Fair value estimation continued*

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	£	£	£	£
2018				
Land and buildings	-	-	2,285,000	2,285,000
Equity shares	1,425,919	2,860,405	-	4,286,324
Fixed income securities	16,560,052	4,373,705	-	20,933,757
Money market funds	-	779,974	-	779,974
	<u>17,985,971</u>	<u>8,014,084</u>	<u>2,285,000</u>	<u>28,285,055</u>

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	£	£	£	£
2017				
Land and buildings	-	-	2,280,000	2,280,000
Equity shares	1,412,874	3,185,119	-	4,597,993
Fixed income securities	14,885,665	6,028,656	-	20,914,321
Money market funds	-	779,974	-	779,974
	<u>16,298,539</u>	<u>9,993,749</u>	<u>2,280,000</u>	<u>28,572,288</u>

**6. PARTICULARS OF BUSINESS**

The Society conducts one class of business; no analysis by class is therefore necessary.

**7. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING**

No material adverse run off deviation was experienced during the year in respect of 2017.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
30 September 2018

**8. NET OPERATING EXPENSES**

	<i>Year ended 30-Sep-18</i>	<i>Year ended 30-Sep-17</i>
	<u>£</u>	<u>£</u>
Staff costs (see Note 9)	656,009	664,405
Advertising	217,892	224,948
Professional fees	114,948	94,414
Computer	133,245	226,521
Property expenses	50,511	48,360
Printing, stationery, postage	73,875	61,731
Bank charges	32,767	31,822
Marketing	77,673	46,531
Other office and administration expenses	94,127	88,507
Directors' remuneration	108,826	108,465
Auditors' remuneration	23,288	22,000
Accountancy – current year	27,525	26,775
Accountancy – prior year	-	9,250
Depreciation (see Note 14)	13,258	13,258
	<u>1,623,944</u>	<u>1,666,987</u>

**9. STAFF COSTS**

	<i>Year ended 30-Sep-18</i>	<i>Year ended 30-Sep-17</i>
	<u>£</u>	<u>£</u>
Salaries	566,423	576,379
Social security costs	24,397	24,133
Pension costs	65,189	63,893
	<u>656,009</u>	<u>664,405</u>

The Society operates three defined contribution pension schemes. The pension benefit is dependent upon the value of the individual's fund at retirement date.

The average number of employees, including directors, during the year was as follows:

	<i>Year ended 30-Sep-18</i>	<i>Year ended 30-Sep-17</i>
	<u>£</u>	<u>£</u>
Directors	27	27
Management	2	3
Administration	7	7
	<u>36</u>	<u>37</u>



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**10. INVESTMENT RETURN**

	<i>Year ended</i> <i>30-Sep-18</i>	<i>Year ended</i> <i>30-Sep-17</i>
	<i>£</i>	<i>£</i>
Income from land and buildings	57,144	84,273
Income from financial investments	670,967	756,344
Interest income	19,974	18,189
Net gain on realisation of investments	200,081	775,012
	948,166	1,633,818

**11. TAXATION AND GOODS AND SERVICES TAX**

Technical income is not taxed. Jersey income tax of 20% is payable on rental income net of attributable expenses. Under the 0/10 regime introduced in Jersey with effect from the 2009 year of assessment the Society, being a mutual trading organisation, is taxed at 0% on investment income. As detailed in the report of the board of administration, it is expected this will change in the 2019 financial year.

The tax credit in 2017, amounting to £45,000 (2018: £nil), arises in respect of the recognition of a deferred tax asset in respect of losses arising on rental income derived from investment property. The Society anticipates that it is probable these losses will be realised, based upon the timing and level of future taxable profits arising from rental activity.

No provision for taxation has been made in 2018 due to allowable expenditure on repairs to the investment property.

Insurance transactions are exempt transactions for Goods and Services Tax (GST) but the Society incurs GST at 5% on various goods and services from registered suppliers. This cost is included in net operating expenses.

**12. LAND AND BUILDINGS**

	<i>30-Sep-18</i>	<i>30-Sep-17</i>
	<i>£</i>	<i>£</i>
Investment property	1,640,000	1,530,000
Owner occupied	645,000	750,000
	2,285,000	2,280,000

The Society owns two properties; 28 Halkett Place, which is classified as an investment property, and 74 – 78 Halkett Place, which is split between investment property and owner occupied.

The historical cost of 28 Halkett Place (classified as investment property) was £24,866 and of 74 – 78 Halkett Place (split evenly between investment property and owner occupied) was £282,916 as at 30 September 2018 and 2017.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**12. LAND AND BUILDINGS** *continued*

The property 28 Halkett Place was professionally valued, at open market value, by Buckley & Company Limited (Commercial Property Specialists) in October 2018 at £575,000 (2017: £780,000). The directors consider this valuation to be applicable at 30 September 2018 and hence have adopted it in the financial statements.

The property 74-78 Halkett Place was professionally valued by Buckley & Company Limited (Commercial Property Specialists) in October 2018 at £1,710,000 (2017: £1,500,000), of which £645,000 (2017: £750,000) is attributable to the owner occupied element and £1,065,000 (2017: £750,000) being attributable to the investment property element. The directors consider this valuation to be applicable at 30 September 2018 and hence have adopted it in the financial statements.

Post-acquisition expenditure, such as on-going maintenance and repairs, is written off as incurred to the profit and loss account within the statement of comprehensive income.

The directors have obtained rebuild costs for the Society's two properties from Colin Smith Partnership (Chartered Quantity Surveyors) as at 30 September 2018 as follows:

28 Halkett Place	£2,095,000
74/78 Halkett Place	£2,646,000

Future minimum rentals receivable under non-cancellable operating leases in respect of investment property are as follows: -

	<u>30-Sep-18</u>	<u>30-Sep-17</u>
	£	£
Due within one year	73,693	53,693
Due between one and five years	294,772	134,772
Due in over five years	820,603	5,446
	<u>1,189,068</u>	<u>193,911</u>

**13. INVESTMENTS**

	<u>30-Sep-18</u>	<u>30-Sep-17</u>
	£	£
Financial investments at fair value:		
Equity shares	4,286,324	4,597,993
Fixed income securities	20,933,757	20,914,321
Money market funds	779,974	779,974
	<u>26,000,055</u>	<u>26,292,288</u>
Loans secured by mortgages	<u>861,500</u>	<u>912,000</u>
	<u>26,861,555</u>	<u>27,204,288</u>

The historical cost of the financial investments amounted to £25,148,116 as at 30 September 2018 and £25,006,485 as at 30 September 2017.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
**30 September 2018**

**13. INVESTMENTS** *continued*

A detailed list of financial investments is available for inspection at the Society's office.

Loans secured by mortgages have been made to three members of staff. The loans bear interest at 2% and are repayable over periods of 6 to 33 years. The value of loans receivable after more than one year is £811,000. The loans are secured over Jersey residential property.

**14. TANGIBLE ASSETS**

	<i>Computer Equipment and Software</i>	<i>Office Furniture and Equipment</i>	<i>Total</i>
	£	£	£
<b>Cost</b>			
At 1 October 2017	155,143	449,214	604,357
Additions	-	-	-
At 30 September 2018	<u>155,143</u>	<u>449,214</u>	<u>604,357</u>
<b>Depreciation</b>			
At 1 October 2017	140,113	429,469	569,582
Charge for the year	10,256	3,002	13,258
At 30 September 2018	<u>150,369</u>	<u>432,471</u>	<u>582,840</u>
<b>Net book values</b>			
At 30 September 2018	<u>4,774</u>	<u>16,743</u>	<u>21,517</u>
At 30 September 2017	<u>15,030</u>	<u>19,745</u>	<u>34,775</u>

The Society is in the process of installing a new computer and operating system. Costs incurred in connection with this new computer and operating system during the year ended 30 September 2018 have been expensed and are included within computer expenses within net operating expenses (see Note 8).

The computer project is ongoing, which a budget to completion of £5,000.

**15. DISCOUNTED CLAIMS**

The Society specifies all outstanding claims provisions at gross costs and does not discount.



**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
30 September 2018

**16. RECONCILIATION OF INSURANCE BALANCES**

The reconciliation of opening and closing unearned premium provision is as follows:

	<i>Gross</i>		<i>Reinsurers' share</i>	
	<i>30-Sep-18</i>	<i>30-Sep-17</i>	<i>30-Sep-18</i>	<i>30-Sep-17</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Brought forward	2,428,536	2,592,640	1,582,031	1,690,295
Increase / (decrease) in provision	46,442	(164,104)	35,964	(108,264)
	2,474,978	2,428,536	1,617,995	1,582,031

The reconciliation of opening and closing provision for claims is as follows:

	<i>Gross</i>		<i>Reinsurers' share</i>	
	<i>30-Sep-18</i>	<i>30-Sep-17</i>	<i>30-Sep-18</i>	<i>30-Sep-17</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Brought forward	1,396,774	1,642,274	1,339,965	1,504,644
Increase / (decrease) in provision	557,476	(245,500)	346,817	(254,536)
Salvage recoveries offset	-	-	-	89,857
	1,954,250	1,396,774	1,686,782	1,339,965

**17. OTHER PREPAYMENTS AND ACCRUED INCOME**

	<i>30-Sep-18</i>	<i>30-Sep-17</i>
	<i>£</i>	<i>£</i>
Accrued income interim claim payments made	450,418	549,928
Other prepayments	7,100	7,039
	457,518	556,967

**18. MEMBERS' FUNDS**

Included within members' funds are £503,542 (2017: £608,542) of revaluation reserves relating to the revaluation of owner occupied property (see Note 12).



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**19. IRREGULAR ACTIVITY**

The Society has recently become aware of potential fraudulent activity that has occurred over a number of years and is currently undertaking detailed investigations as to the significance and impact of this matter. However, the directors are satisfied that: -

1. The Society's members remain fully insured in line with the terms and conditions of their respective insurance schedule;
2. The Society's reinsurance partners are fully aware of the situation and continue to fully support the Society. Furthermore, the Society has recently renewed its reinsurance programme, as per the previous terms, with effect from 1 October 2018;
3. As detailed in the balance sheet, the Society retains significant reserves backed by a portfolio of liquid investments; and
4. As a result, the continued strength of the Society and the interests of its members have not been substantially compromised.

The Society has informed its regulator, the Jersey Financial Services Commission, and reported the situation to the Joint Financial Crimes Unit. All relevant parties will be kept apprised of the situation.

Having taken legal advice from our lawyers, the Society has put into place all appropriate measures to aid the recovery of such sums and in order to mitigate its losses where possible. Furthermore, in light of the uncertainty surrounding the recoverability of any such amounts, no provision has been made in the financial statements in this regard.

While the full impact of such activity has yet to be determined, it appears that some amounts due to reinsurers over a number of years may have been inappropriately withheld. As a result, a provision has been included in these financial statements for the year ended 30 September 2018 amounting to £343,645 as due to reinsurers in this respect.

Investigations as to the extent and significance of this activity remain ongoing and the directors will update members in due course. In light of an ongoing criminal investigation, the Society is not in a position to disclose further information at this juncture.

**20. RELATED PARTY TRANSACTIONS**

The Rules of the Society require that the directors are selected from members of the Society. As such, insurance premiums are received from, and insurance claims may be paid to, directors in accordance with the Society's usual terms of business.

The Society's key management personnel are considered to be directors and management. Total compensation paid to these individuals during the year amounted to £390,182 (including social security and pension contributions) (2017: £400,840).

Further, a secured loan amounting to £128,000 was due to the Society from a member of key management personnel as at 30 September 2018 (2017: £160,000). Repayments amounting to £32,000 were received during the year (2017: £32,000). The loan bears interest at the rate of 2% per annum and is secured over Jersey residential property.



**NOTES TO THE FINANCIAL STATEMENTS *continued***  
**30 September 2018**

**21. CONTROLLING PARTY**

In the opinion of the Directors there is no ultimate controlling party, since the Society is owned by its members.

**22. SUBSEQUENT EVENTS**

There are no material events subsequent to the year end to report.





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Jersey Mutual is regulated by the Jersey Financial Services Commission