Key Insurance Company Limited

Financial Statements
31 December 2016

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SECTION 3 EXPRESSION OF OPINION

The author's opinion relates to the values of the premium and claim liabilities as summarized in Sections 3.2 and 3.3 of this report. The financial condition of the Company referenced in Section 3.1 below refers to the financial state reflected by the amount, nature and composition of its assets, liabilities and equity, all at a particular point in time.

3.1 Report of the Appointed Actuary

I have examined the financial condition and valued the premium and claim liabilities of Key Insurance Company Limited for its balance sheet as at 31 December 2016 and the corresponding change in the premium and claim liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica.

In my opinion:

i) the methods and procedures used in the verification of the data are sufficient and reliable and fulfil acceptable standards of care;

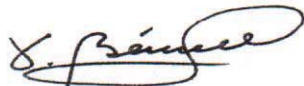
ii) the valuation of premium and claim liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Financial Services Commission;

iii) the methods and assumptions used to calculate the premium and claim liabilities are appropriate to the circumstances of the Company and of the said policies and claims;

iv) the amount of the premium and claim liabilities represented in the balance sheet of Key Insurance Company Limited makes proper provision for the future payments under the Company's policies and meets the requirements of *The Insurance Act, 2001* and other appropriate regulations of Jamaica;

v) a proper charge on account of these liabilities has been made in the statement of operations;

vi) there is sufficient capital available to meet the solvency standards as established by the Financial Services Commission.



Xavier Bénarosch
Fellow, Canadian Institute of Actuaries

Kingston, Jamaica
28 March 2017

Independent auditor's report

The Shareholders of Key Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Key Insurance Company Limited (the 'Company') as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

Key Insurance Company Limited's financial statements comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters for consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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L.A. McKnight P.E. Williams A.K. Jain B.L. Scott B.J.Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom D.D. Dodd G.K.Moore

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of incurred but not reported claims for property & casualty contracts *See notes 2, 3 and 24 of the financial statements for management's disclosures of related accounting policies, judgements and estimates.*	
As at 31 December 2016, total incurred but not reported reserves amount to $174.5 million. The methodologies and assumptions utilized to develop incurred but not reported reserves involve a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. There is generally less information available in relation to these claims, which can result in variability between initial estimates and final settlement. A range of methods, may be used to determine these provisions. Management engaged an independent actuarial expert to assist in determining the value of claims incurred but not reported. We focused on this area because, underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to complex calculations.	We tested the completeness, accuracy and reliability of the underlying data utilized by management, and its external actuarial experts, to support the actuarial valuation. Our tests did not identify any exceptions. We evaluated the work of management's actuarial expert, including their independence, experience and objectivity. We were assisted by our own actuarial experts considering industry and component specific facts and circumstances, to evaluate the methodologies and assumptions utilized by management's actuarial experts. In evaluating management's valuation, the actuarial specialist challenged the assumptions used by management and assessed the methodologies used for appropriateness and consistency with established actuarial practice and methodologies used in the prior year. The assumptions used by management were found to be reasonable and the methodologies appropriate and consistent with the prior year.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

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

The engagement partner on the audit resulting in this independent auditor's report is Garfield Reece.

PricewaterhouseCoopers

Chartered Accountants
30 March 2017
Kingston, Jamaica

Key Insurance Company Limited

Statement of Comprehensive Income

Year ended 31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

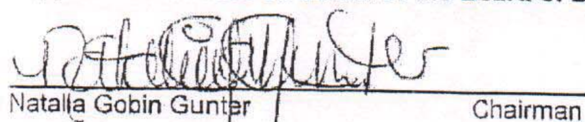
	Note	2016 $'000	2015 $'000
Gross Premiums Written		1,081,746	960,973
Reinsurance ceded		(435,881)	(487,959)
Net premiums written		645,865	473,014
Change in unearned premium reserve, net		(111,830)	13,023
Net Premiums Earned		534,035	486,037
Change in insurance reserves		42,957	(18,737)
Commission on reinsurance ceded		78,292	85,579
Commission on premium written	8	(101,908)	(90,113)
Claims expense	8	(1,044,827)	(287,473)
Reinsurance recoveries	4(b), 8	803,396	54,262
Change in unexpired risk reserves		(27,027)	21,262
Administration and other expenses	8	(410,096)	(318,400)
Underwriting Loss		(125,178)	(67,583)
Investment income	10	42,288	58,457
Gains on revaluation of investment properties	19	12,050	21,080
Other income	11	20,280	14,917
(Loss)/Profit Before Taxation		(50,560)	26,871
Taxation	12	8,326	(3,787)
Net (Loss)/Profit		(42,234)	23,084
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss:			
Net gain on the revaluation of available-for sale investment securities		24,539	16,326
Items that will not be subsequently reclassified to profit or loss:			
Revaluation gains on property, plant and equipment		16,998	13,030
Deferred tax credit/(charge) on revaluation of property, plant and equipment		6,616	(807)
Other Comprehensive Income		48,153	28,549
Total Comprehensive Income for the Year		5,919	51,633
(Loss)/Earnings per Share	29	(0.12) cents	0.09 cents

Key Insurance Company Limited

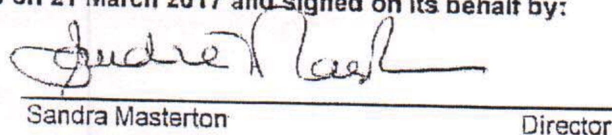
Balance Sheet
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2016 $'000	2015 $'000
ASSETS			
Cash and deposits	13	451,265	185,923
Investment securities	14	507,479	773,382
Due from policyholders, brokers and agents	15	139,284	76,870
Due from reinsurers	16	502,203	211,371
Deferred policy acquisition costs		112,401	70,778
Taxation recoverable		185,023	171,599
Other receivables	17	280	3,701
Investment properties	19	185,150	173,100
Intangible assets	20	1,149	1,098
Property, plant and equipment	21	313,753	281,089
Deferred taxation	23	866	-
		2,398,853	1,948,911
LIABILITIES AND EQUITY			
Liabilities			
Bank overdraft	13	1,663	150
Other payables	22	25,795	26,419
Due to reinsurers		39,494	96,936
Deferred taxation	23	-	14,076
Insurance reserves	24	1,337,404	930,707
		1,404,356	1,068,288
Equity			
Share capital	25	235,282	127,327
Capital reserve	26	57,371	57,371
Fair value reserves	27	304,153	243,950
Retained earnings		397,691	451,975
		994,497	880,623
		2,398,853	1,948,911

Approved for issue on behalf of the Board of Directors on 21 March 2017 and signed on its behalf by:



Natalia Gobin Gunter Chairman



Sandra Masterton Director

Key Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Capital Reserve $'000	Fair Value Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2015	127,327	57,371	194,321	449,971	828,990
Total comprehensive income for the year	-	-	28,549	23,084	51,633
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from retained earnings	-	-	21,080	(21,080)	-
Balance at 31 December 2015	127,327	57,371	243,950	451,975	880,623
Total comprehensive income for the year	-	-	48,153	(42,234)	5,919
Shares issued during the year	107,955	-	-	-	107,955
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from retained earnings	-	-	12,050	(12,050)	-
Balance at 31 December 2016	235,282	57,371	304,153	397,691	994,497

Key Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2016 $'000	2015 $'000
Cash Flows from Operating Activities			
Net (loss)/profit		(42,234)	23,084
Adjustments for:			
Amortisation and depreciation	20, 21	12,197	10,092
(Gain)/loss on sale of property, plant and equipment		(150)	6,130
Gains on revaluation of investment properties	19	(12,050)	(21,080)
Gain on foreign exchange	11	(9,900)	(4,806)
Dividend income	10	(2,536)	(1,053)
Interest income	10	(39,753)	(57,404)
Taxation	12	(8,326)	3,787
		(102,752)	(41,250)
Changes in operating assets and liabilities			
Due from policyholders, brokers and agents		(62,414)	(7,050)
Change in deferred policy acquisition costs		(41,623)	13,843
Change in insurance reserves		406,697	62,147
Due from reinsurers		(290,832)	(45,486)
Due to reinsurers		(66,198)	2,262
Other assets		3,421	(574)
Other liabilities		(624)	7,252
		(154,325)	(8,856)
Taxation paid		(13,424)	(13,916)
Net cash used in operating activities		(167,749)	(22,772)
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	21	(27,757)	(12,425)
Acquisition of intangible asset		(157)	(1,197)
Proceeds on disposal of property, plant and equipment		150	15,468
Purchase of investments		(891,216)	(44,476)
Disposal/maturity of investments		590,381	28,972
Interest and dividend received		49,914	58,457
Net cash provided by investing activities		322,984	44,803
Cash Flows from Financing Activity			
Net proceeds from the issue of shares		107,955	-
Net cash provided by financing activity		107,955	-
Net increase in cash and cash equivalents		263,190	22,031
Effect of changes in exchange rate on cash and cash equivalents		135	203
Cash and cash equivalents at beginning of year		182,580	160,346
Cash and Cash Equivalents at the End of the Year	13	445,905	182,580

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

(a) Key Insurance Company Limited (the company) is registered and domiciled in Jamaica. Its registered office is located at 6c Half Way Tree Road, Kingston 5, Jamaica.

(b) The company is licensed to operate as a general insurer in Jamaica, under the Insurance Act, 2001. Its principal activity is the underwriting of motor, commercial and personal property and casualty insurance.

(c) The company is listed on the Junior Market of the Jamaica Stock Exchange as at 1 April 2016.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment properties and certain property, plant and equipment.

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

Accounting pronouncements effective in 2016 which are relevant to the company's operations

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that none is relevant to its operations.

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments and has determined that the following may be relevant to its operations and has concluded as follows:

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2018). In July 2015, the IASB issued IFRS 9 which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective
IFRS 9, 'Financial Instruments', (continued)

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in the company's own credit risk of financial liabilities designated at fair value through profit or loss, in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The company is still assessing the potential impact of adoption and whether it should consider early adoption but it is not possible at this stage to quantify the potential effect.

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

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied). The International Accounting Standards Board (IASB) published IFRS 16, 'Leases', which replaces the current guidance in IAS 17. This will require changes in accounting by lessees in particular. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is currently assessing the impact of future adoption of the new standard on its financial statements.

Amendments to IAS 7, 'Statement of Cash Flows', (effective for annual periods beginning on or after 1 January 2017). In January 2016, the IASB published amendments to IAS 7 to improve information about an entity's financing activities. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. The amendments require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities including both cash and non-cash changes. The future adoption of these amendments will result in additional disclosure in the financial statements.

Amendment to IAS 40, Investment property' relating to transfers of investment property, (effective for annual periods beginning on or after 1 January 2018). These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The company is considering the implications of the standard, the impact on the company and the timing of its adoption.

(b) Foreign currency translation

Functional and presentation currency

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

Translations and balances

Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies during the year are converted at the rates of exchange ruling on the dates of those transactions. Gains and losses arising from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the statement of comprehensive income.

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation (continued)

Translations and balances (continued)
Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial assets at fair value through profit or loss are recognised in the statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value gain or loss recognised in other comprehensive income.

(c) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

Financial assets
The company's financial assets comprise investment securities, insurance receivables and cash and short term investments.

Investment securities
The company classifies its investment securities as available-for-sale. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Purchases and sales of investments are recognised on the trade date - the date that the company commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently carried at fair value.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss in the statement of comprehensive income, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of both monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in income as 'gains and losses on investment securities'. Interest on available-for-sale securities, calculated using the effective interest method, is recognised in profit or loss in the statement of comprehensive income.

Key Insurance Company Limited

Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Investment securities (continued)

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset may be considered to be impaired if its carrying amount exceeds its estimated recoverable amount. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market rate for a similar financial asset. The recoverable amount of a financial asset carried at amortised cost is the present value of expected future cash flows discounted at the original rate of interest of the financial asset.

Premiums receivable

Premiums receivable are carried at the original negotiated invoice amount less provision made for impairment of these receivables. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. Debts that are known to be uncollectible are written off during the year in which they are identified.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and at bank, short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

Financial liabilities

The company's financial liabilities are initially measured at fair value, net of transactions costs and are subsequently measured at amortised cost using the effective interest method. At the balance sheet date the following items were classified as financial liabilities: payables, bank overdraft, short term loans and amounts due to reinsurers, and claims outstanding.

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

(d) Securities purchased under agreements to resell

Securities purchased under agreement to resell (reverse repurchase agreements) are treated as loan assets and they mature within twelve months. The difference between the purchase and resale price is treated as interest and accrued over the life of the arrangements using the effective yield method.

(e) Reinsurance ceded

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

(f) Deferred policy acquisition costs

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

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2. Significant Accounting Policies (Continued)

(g) Investment property

Investment property comprises land owned by the company, which is held for long-term capital appreciation and is not used in the provision of services. Investment property is treated as a long-term investment and is carried at fair value, representing open market value determined annually by external valuators. Changes in fair values are recorded in profit or loss.

(h) Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation based on annual valuations by external independent valuers, less subsequent depreciation of buildings. All other property, plant and equipment are carried at cost less accumulated depreciation.

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

Increases in carrying amounts arising on revaluation are credited to other comprehensive income and shown in fair value reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against fair value reserves directly in equity; all other decreases are charged to profit or loss.

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

Annual depreciation rates are as follows:

Buildings	2½%
Computer equipment	20%
Motor vehicles	20%
Furniture and fixtures	10%

Land is not depreciated.

Leasehold improvements are amortised over the period of the lease.

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

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2. Significant Accounting Policies (Continued)

(i) Intangible assets

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

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

(j) Impairment of long-lived assets

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

(k) Leases

Leases of property, plant and equipment where the lessor retains a significant portion of the risks and rewards are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor are charged to income on a straight-line basis over the period of the lease.

(l) Provisions

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

(m) Payables

These amounts are recognised at cost.

(n) Insurance reserves

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

2. Significant Accounting Policies (Continued)

(o) Insurance reserves (continued)

Unearned premium reserve
This reserve represents that proportion of premiums written in respect of risks to be borne subsequent to the year end, under contracts entered into on or before the balance sheet date, and is amortised to income on a straight line basis over the life of the insurance contract. The reserve aims to match the expiry of exposure with the earning of premium. The earned portion of premiums received and receivable is recognised as revenue.

Unearned commission
The commission income relating to premium ceded on reinsurance contracts is deferred over the unexpired period of risk carried.

Unexpired risk reserve
A provision is made to cover the estimated value of claims, whether reported or unreported, attributable to the unexpired periods of policies in force at the balance sheet date, in excess of the related unearned premium reserve.

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

Claims incurred but not reported (IBNR)
The reserve for IBNR claims has been calculated by an independent actuary using the Loss Development Method and Bornhuetter-Ferguson Projection Method.

The Loss Development Method is where the current reported incurred and paid claims are projected to their ultimate values by accident year based on historical incurred and paid development patterns.

The Bornhuetter-Ferguson Projection Method gives some weight to historically based development patterns and the balancing weight to historically based expected ultimate loss ratios.

Liability adequacy test
At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the policy liabilities, net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows are compared to the carrying amount of policy liabilities and any deficiency is immediately charged to the profit or loss account.

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

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

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2. Significant Accounting Policies (Continued)

(p) Income taxes (continued)

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

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

(q) Employee benefits

Pension obligations

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

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

Vacation

Employee entitlement to annual leave is recognised when it accrues to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Termination benefits

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

(r) Revenue recognition

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

Sale of insurance services

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

Commissions receivable on reinsurance of risks is credited to revenue when premiums are earned.

Key Insurance Company Limited

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2. Significant Accounting Policies (Continued)

(r) Revenue recognition (continued)

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

(s) Taxation recoverable

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

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

(a) Critical judgements in applying the company's accounting policies

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

(b) Key sources of estimation uncertainty

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

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

(b) Key sources of estimation uncertainty (continued)

Estimates of claims liabilities (continued)

Claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the company to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims.

4. Insurance and Financial Risk Management

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

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

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

(i) Finance Department

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

(ii) Audit Committee

The Audit Committee oversees how the company's management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures at the company, the result of which are reported to the Audit Committee.

4. Insurance and Financial Risk Management (Continued)

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

There has been no significant change to the company's exposure to insurance and financial risks, or the manner in which it manages and measures these risks.

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

(a) Insurance risk

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

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

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

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the issuance of insurance contracts by the company is, however, concentrated within Jamaica.

The company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Where applicable, contracts are underwritten by reference to the commercial replacement value of the properties or other assets and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for other assets and contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Claims on insurance contracts are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a portion of the claims provision relates to IBNR claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

In calculating the estimated cost of unpaid claims (both reported and not), the company uses estimation techniques that are a combination of loss-ratio based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) is analysed by type of risk for current and prior year premiums earned.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

	2016			2015		
		Policy Limit '000	Maximum Net Retention '000		Policy Limit '000	Maximum Net Retention '000
Commercial property –						
Fire and consequential loss	US$	6,000	US$ 200	US$	6,000	US$ 200
Boiler and machinery	US$	1,125	US$ 281	US$	1,125	US$ 281
Miscellaneous accident	US$	160	US$ 64	US$	160	US$ 64
Bankers blanket	US$	300	US$ 120	US$	480	US$ 192
Contractor's All Risk	US$	1,500	US$ 375	US$	1,500	US$ 375
Liability	US$	2,500	US$ 750	US$	2,500	US$ 750
Travel	US$	150	US$ 15	US$	150	US$ 15
Other	US$	50	US$ 20	US$	50	US$ 20
Motor	J$	20,000	J$ 10,000	J$	10,000	J$ 3,250
Pecuniary loss -						
Fidelity	US$	480	US$ 192	US$	480	US$ 192
Personal accident	US$	10,000	US$ 500	US$	10,000	US$ 500

Sensitivity Analysis of Actuarial Liabilities

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. A summary of the actuarial assumptions is disclosed in Note 24.

Development Claim Liabilities

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The table below illustrates how the company's estimate of total claims outstanding for each year has changed at successive year-ends. Updated unpaid claims and adjustment expenses (UCAE) and IBNR estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations. These amounts are shown net of reinsurance recovery.

Amounts shown in the table as excess or deficiency represent the percentage difference between the estimate of the claims liability (amounts paid to date plus amounts currently in reserve) at the end of each accident year, when compared to amounts initially reserved at the end of the accident year when the claim first arose. For each accident year, ratios are calculated on losses occurring during the year, and in all years prior to that accident year.

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities (continued)

		2012	2012 And Prior	2013	2013 And Prior	2014	2014 and prior	2015	2015 And prior	2016	2016 And prior
2012	Paid during year	39,992	132,454								
	UCAE, end of year	76,779	379,890								
	IBNR, end of year	7,864	112,893								
	Ratio: excess (deficiency)										
2013	Paid during year	67,941	134,878	37,146	172,024						
	UCAE, end of year	68,650	279,084	95,875	374,959						
	IBNR, end of year	17,862	36,103	79,325	115,428						
	Ratio: excess (deficiency)		8.67%								
2014	Paid during year	29,198	81,312	63,771	145,083	22,236	167,319				
	UCAE, end of year	49,728	186,010	67,466	253,476	82,417	335,893				
	IBNR, end of year	9,538	21,648	19,280	40.928	75,818	116,678				
	Ratio: excess (deficiency)		13.99%		18.72%						
2015	Paid during year	8,540	58,805	9,743	68,548	56,089	124,637	63,102	187,739		
	UCAE, end of year	35,373	109,784	57,657	167,441	54,862	222,303	115,220	337,523		
	IBNR, end of year	(395)	10,486	9,125	19,611	19,518	39,129	121,071	160,200		
	Ratio: excess (deficiency)	(66.18%)	19.79%	19.92%	18.29%	(17.55%)	14.69%				
2016	Paid during year	2,836	26,407	16,164	42,571	20,644	63,215	89,993	153,208	106,631	259,839
	UCAE, end of year	18,034	51,441	22,814	74,255	23,533	97,788	65,572	163,360	145,482	308,842
	IBNR, end of year	65,272	105,029	10,939	115,428	1,318	116,746	43,454	160,200	6,454	166,654
	Ratio: excess (deficiency)	-24.59%	7.1%	-29.30%	7.65%	-54.75%	3.37%	-25.43%	4.21%		

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4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Risk exposure and concentrations of risk:

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

	2016				
	Liability	Property	Motor	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross Claims liability (not including IBNR)	43,149	299,343	290,240	14,296	647,028
Net Claims liability (not including IBNR)	12,877	2,738	288,665	4,562	308,842
Gross IBNR, PFAD & ULAE	6,778	1,040	165,391	1,308	174,517
Net IBNR, PFAD & ULAE	6,473	993	157,939	1,249	166,654
Net Unexpired Risk Reserve	1,513	14,020	34,839	2,249	52,621

	2015				
	Liability	Property	Motor	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross Claims liability (not including IBNR)	58,856	10,758	315,732	9,615	394,961
Net of reinsurance	17,653	614	315,732	3,524	337,523
Gross IBNR, PFAD & ULAE	5,560	853	135,662	1,073	143,148
Net IBNR, PFAD & ULAE	19,229	1,518	135,662	3,792	160,201
Net Unexpired Risk Reserve	783	1,762	22,859	190	25,594

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4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the company may cede certain levels of risk to a reinsurer. The company selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the company. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the company are summarised below:

(i) The maximum exposure on insurance policies for all facultative reinsurance arrangements for the company is $35 million (2015 - $29 million) per any one loss.

(ii) The company insures with several reinsurers. Of significance are Munich Re, Odyssey Re, Korean Re, GIC Re, China Re, Sirius International (UK) Scor Re and QBE Re who take up 5% to 100% of their treaty arrangements. All other reinsurers carry lines under 5%. These include National Assurance, New Indian Assurance and United India Assurance. The financial analysis of reinsurers, which is conducted at the board level, produces an assessment categorised by a Standard & Poors (S&P) rating (or equivalent when not available from S&P). They are as follows –

	Ratings
Munich Re	A +
Hanover Re	A
Everest Re	A+
Odyssey Re	A
Korean Re	A
GIC Re	A -
Sirius International (UK)	A
Scor Re	A
QBE Re	A

Reinsurance recoveries recognised during the period are as follows:

	2016	**2015**
	$'000	**$'000**
Property	747,521	12,688
Motor	26,238	14,329
Engineering	19,920	762
Accident	2,399	3,221
Liability	7,318	23,262
	803,396	54,262

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk

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

(i) Credit risk

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

The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties.

Credit review process

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

(i) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

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

(ii) Premium and other receivables

Management utilises periodic reports to assist in monitoring any premiums that are overdue. Where necessary, cancellation of policies is effected for amounts deemed uncollectible. Internal audit makes regular reviews to assess the degree of compliance with company procedures on credit.

(iii) Investments, bank and deposit balances

The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.