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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.

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.

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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.

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%		

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.

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Aged analysis of premium receivables past due but not impaired

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

	2016 $'000	2015 $'000
61 to 120 days	28,197	18,558
120 to 150 days	9,398	10,090
More than 150 days	33,347	30,624
	70,942	59,272

Premium receivables
The credit exposure for premium receivables is $139,284,000 (2015 - $76,870,000).

Provision for impairment is $23,672,000 (2015 - $21,821,000).

Debt securities

The following table summarises the credit exposure for debt securities at their carrying amounts, as categorised by issuer:

	2016 $'000	2015 $'000
Government of Jamaica	429,468	732,555
Corporate	6,463	-
	435,931	732,555

The maximum credit exposure arising from the company's other financial assets equals their carrying amounts on the balance sheet.

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

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its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.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

Liquidity risk management process

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

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

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

(iii) Optimising cash returns on investment;

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

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

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

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

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

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities cash flows

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

	2016					
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
Financial Assets						
Cash and deposits	60,938	390,327	-	-	-	451,265
Investment securities	3,180	4,324	290,924	47,576	188,095	534,099
Due from policyholders, brokers and agents	139,284					139,284
Due from reinsurers	338,186	-	-	-		338,186
Due from reinsurer (IBNR, PFAD & ULAE	7,863	-	-	-		7,863
Other receivables	280	-	-	-		280
	549,731	394,651	290,924	47,576	188,095	1,470,977
Financial Liabilities						
Due to reinsurers	39,494	-	-	-	-	39,494
Other payables	25,795	-	-	-	-	25,795
Bank overdraft	1,663	-	-	-	-	1,663
Claims outstanding	647,028	-	-	-	-	647,028
IBNR, PFAD & UCAE	174,517	-	-	-	-	174,517
Unexpired risk reserve	52,621	-	-	-	-	52,621
	941,118	-	-	-	-	941,118
Liquidity gap	(391,387)	391,387	290,924	47,576	188,095	529,859

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	2015				
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Total $'000**
Financial Assets					
Cash and deposits	74,389	111,984	-	-	186,373
Investment securities	-	459,946	-	324,295	784,241
Due from policyholders, brokers and agents	76,870	-	-	-	76,870
Due from reinsurers	58,009	-	-	-	58,009
Due from reinsurer (IBNR, PFAD & ULAE	(17,052)	-	-	-	(17,052)
Other receivables	-	-	1,702	1,999	3,701
	192,216	571,930	1,702	326,294	1,092,142
Financial Liabilities					
Due to reinsurers	31,318	65,618	-	-	96,936
Other payables	16,894	5,444	4,081	-	26,419
Bank overdraft	150	-	-	-	150
Claims outstanding	394,961	-	-	-	394,961
IBNR, PFAD & UCAE	143,148	-	-	-	143,148
Unexpired risk reserve	25,594	-	-	-	25,594
	612,065	71,062	4,081	-	687,208
Liquidity gap	(419,849)	500,868	(2,379)	326,294	404,934

Assets available to meet all of the liabilities and to cover financial liabilities include cash and short term deposits, and investment securities. The company is also able to meet unexpected net cash outflows by accessing additional funding sources from other financial institutions.
Equities are not included.

Notes to the Financial Statements
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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk

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

Currency risk

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

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

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Concentrations of currency risk
The table below summarises the exposure to foreign currency exchange rate risk at 31 December.

	2016		
	Jamaican$	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial Assets			
Cash and deposits	174,150	277,115	451,265
Investment securities	272,000	235,479	507,479
Due from policyholders, brokers and agents	121,922	17,362	139,284
Due from reinsurers	37,576	300,610	338,186
Due from reinsurer - IBNR PFAD & ULAE	7,863	-	7,863
Other receivables	280	-	280
Total financial assets	613,791	830,566	1,444,357
Financial Liabilities			
Other payables	25,795	-	25,795
Bank overdraft	1,663	-	1,663
Due to reinsurers	38,473	1,021	39,494
Claims outstanding	342,665	304,363	647,028
IBNR, PFAD & ULAE	174,517	-	174,517
Unexpired risk reserve	52,621	-	52,621
Total financial liabilities	635,734	305,384	941,118
Net financial position	(21,943)	525,182	503,239

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

	2015		
	Jamaican $	**US$**	**Total**
	J$'000	**J$'000**	**J$'000**
Financial Assets			
Cash and deposits	38,481	147,442	185,923
Investment securities	773,382	-	773,382
Due from policyholders, brokers and agents	55,703	21,167	76,870
Due from reinsurers	46,470	11,539	58,009
Due from reinsurer - IBNR PFAD & ULAE	(17,052)	-	(17,052)
Other receivables	3,701	-	3,701
Total financial assets	900,685	180,148	1,080,833
Financial Liabilities			
Other payables	26,419	-	26,419
Bank overdraft	150	-	150
Due to reinsurers	69,816	27,120	96,936
Claims outstanding	382,286	12,675	94,961
IBNR, PFAD & ULAE	143,148	-	143,148
Unexpired risk reserve	25,594	-	25,594
Total financial liabilities	647,413	39,795	687,208
Net financial position	253,272	140,353	393,625

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)
Foreign currency sensitivity

The following table indicates the currency to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a revaluation of 1% and devaluation of 6% (2015 revaluation of 1% and a devaluation of 8%) in foreign currency rates. The sensitivity analysis includes cash and short term investments, investment securities and amounts due from policyholders, brokers and agents, and US-dollar denominated liabilities.

	Change in Currency Rate %	Effect on Profit before Taxation $'000	Change in Currency Rate %	Effect on Profit before Taxation $'000
	2016		2015	
United States Dollar				
Revaluation of JMD	(1%)	(5,251)	(1%)	(1,403)
Devaluation of JMD	6%	31,510	8%	11,228

Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk. The company's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the Finance Department.

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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)
Interest rate risk (continued)

The following tables summarise the company's exposure to interest rate risk at balance sheet date. It includes financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	2016						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 $'000	1 to 5 years $'000	Over 5 years	Non-Interest Bearing $'000	Total $'000
Cash and deposit	157,214	293,355	-	-	-	696	451,265
Investment securities	-	-	272,627	9,101	146,819	78,932	507,479
Due from policyholders, brokers and agents	-	-	-	-	-	139,284	139,284
Due from reinsurers	-	-	-	-	-	338,186	338,186
Due from reinsurers – IBNR PFAD & ULAE	-	-	-	-		7,863	7,863
Other receivables	-	-	-	-	-	280	280
	157,214	293,355	272,627	9,101	146,819	565,241	1,444,357
Financial Liabilities							
Other payables	-	-	-	-	-	25,795	25,795
Bank overdraft	-	-	-	-	-	1,663	1,663
Due to reinsurers	-	-	-	-	-	39,494	39,494
Claims outstanding	-	-	-	-	-	647,028	647,028
IBNR, PFAD & ULAE	-	-	-	-	-	174,517	174,517
Unexpired risk reserve	-	-	-	-	-	52,621	52,621
Total financial liabilities	-	-	-	-		941,118	941,118
Total interest repricing gap	157,214	293,355	272,627	9,101	146,819	(375,877)	503,239

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate sensitivity
Interest rate sensitivity measures the sensitivity of the financial assets and liabilities of the company to a reasonable possible change in interest rates, with all other variables held constant, on the income in statement of comprehensive income and in other comprehensive income.

	2015					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 $'000	1 to 5 years $'000	Non-Interest Bearing $'000	Total $'000
Cash and deposit	74,173	111,557	-	-	193	185,923
Investment securities	-	456,355	-	260,688	56,339	773,382
Due from policyholders, brokers and agents	-	-	-	-	76,870	76,870
Due from reinsurers	-	-	-	-	58,009	58,009
Due from reinsurers – IBNR PFAD & ULAE	-	-	-	-	(17,052)	(17,052)
Other receivables	-	-	-	-	3,701	3,701
	74,173	567,912	-	260,688	178,060	1,080,833
Financial Liabilities						
Other payables	-	-	-	-	26,419	26,419
Bank overdraft	-	-	-	-	150	150
Due to reinsurers	-	-	-	-	96,936	96,936
Claims outstanding	-	-	-	-	394,961	394,961
IBNR, PFAD & ULAE	-	-	-	-	143,148	143,148
Unexpired risk reserve	-	-	-	-	25,594	25,594
Total financial liabilities	-	-	-	-	687,208	687,208
Total interest repricing gap	74,173	567,912	-	260,688	(509,148)	393,625

Notes to the Financial Statements
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4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate sensitivity continued

The Company is exposed to equity and bond fair value price risk because of investments held by the Company classified as available-for-sale. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The Company's investments in quoted equity securities are publicly traded on the Jamaica Stock Exchange.

The following table indicates the sensitivity to a reasonable possible change in prices of equity and bond securities, with all other variables held constant on other comprehensive income.

There is no impact on the profit or loss for investment securities as none are classified at fair value through profit or loss. The sensitivity of other comprehensive income is the effect of the assumed fair value changes of investment securities classified as available-for-sale.

	Effect on Other Comprehensive Income 2016 $'000	Effect on Other Comprehensive Income 2015 $'000
Percentage change equity values:		
10% (2015 - 20%) increase	7,155	8,165
10% (2015 - 20%) decrease	(7,155)	(8,165)
Change in basis points - bond:		
+ 100 for both JMD and USD	(7,532)	(3,940)
JMD -100 USD -50 (2015: JMD -150 USD -50)	7,332	6,026

5. Capital Management

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

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

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

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

Capital adequacy is managed and monitored by the company's management. It is calculated by the Financial Controller, certified by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

Available capital includes issued capital, retained earnings, fair value reserves and capital reserves amounting to $994,497,000 (2015 - $880,623,000) at the end of the year.

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT) which is used by the FSC to determine the solvency of the company. The minimum standard stipulated by the section 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) regulations, 2011 is that a general insurance company shall have a minimum MCT percentage of 250% (2015 – 250%). This information is required to be filed with the FSC on an annual basis. Under Section 15(1) of the Insurance Act, 2001, the FSC may cancel the registration of a general insurance company if it is considered to be insolvent.

As at 31 December 2016, the company achieved the minimum required level of capital based on the MCT.

	2016	2015
Actual MCT ratio	306%	347%
Minimum required MCT ratio	250%	250%

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6. Fair Value Estimation

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

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

(i) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available.

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

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

(iv) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

The following table presents the company's financial instruments that are measured at fair value at 31 December grouped into Levels 1 to 3 dependent on the degree to which fair values are observable.

	Level 1 $'000	Level 2 $'000	Total $'000
As at 31 December 2016			
Available-for-sale investments –			
Quoted equities	71,548	-	71,548
Corporate	-	6,463	6,463
Debt securities	-	429,468	429,468
	71,548	435,931	507,479
As at 31 December 2015			
Available-for-sale investments –			
Quoted equities	40,827	-	40,827
Debt securities	-	732,555	732,555
	40,827	732,555	773,382

6. Fair Value Estimation (Continued)

- Level 1 includes those instruments which are measured based on quoted priced in active markets for identical assets and liabilities. These mainly comprise of equity shares traded on the Jamaica Stock Exchange and are classified as available-for-sale.
- Level 2 includes those instruments which are measured using inputs other than quoted prices that are observable for the instrument, directly or indirectly. The fair value for these instruments is determined by using valuation techniques and maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between the levels during the year.

Financial Instruments by Category

	2016		
	Loans and receivables $'000	**Available for sale $'000**	**Total $'000**
Cash and deposits	451,265	-	451,265
Investment securities	-	507,479	507,479
Due from policyholders, brokers and agents	139,284	-	139,284
Due from reinsurers	338,186	-	338,186
Other receivables	280	-	280
Total financial assets	929,015	507,479	1,436,494

	2015		
	Loans and receivables $'000	**Available for sale $'000**	**Total $'000**
Cash and deposits	185,923	-	185,923
Investment securities	-	773,382	773,382
Due from policyholders, brokers and agents	76,870	-	76,870
Due from reinsurers	58,009	-	58,009
Other receivables	3,701	-	3,701
Total financial assets	324,503	773,382	1,097,885

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6. Fair Value Estimation (Continued)

	Other financial liabilities at amortised cost	
	2016	**2015**
	$'000	**$'000**
Bank overdraft	1,663	150
Other payables	25,795	26,419
Due to reinsurers	39,494	96,936
Claims outstanding	647,028	394,961
Total financial liabilities	713,980	518,466

Fair value sensitivity analysis

Non-financial assets carried at fair value include property, plant and equipment and investment property, which fall within level 3 of the fair value hierarchy. The valuations have been performed using the sales comparison approach. There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs, which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale and quality of land, buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

7. Responsibilities of the Appointed Actuary and Independent Auditors

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

The shareholders, pursuant to the Companies Act, appoint the Independent Auditors. The auditor's responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the Auditors also make use of the work of the appointed Actuary and the Actuary's report on outstanding claims.

8. Expenses by Nature

	2016 **$'000**	**2015** **$'000**
Advertising	6,300	7,154
Amortisation and depreciation	12,197	10,092
Asset tax	3,652	1,365
Auditors' remuneration	6,988	7,500
Bank charges and interest	2,307	1,974
Donations and subscriptions	3,785	5,274
Computer and data processing expenses	30,021	18,840
Insurance and registration fees	9,080	8,395
Travelling	8,658	11,095
Miscellaneous	1,900	5,966
Motor vehicle expenses	10,121	8,710
Office expenses	9,534	8,416
Postage, telephone, fax and utilities	17,287	15,582
Printing and stationery	4,828	3,620
Legal and Professional fees	33,475	27,737
Provision for bad debt	14,850	-
Rental expenses	9,359	6,496
Loss on disposal of property, plant and equipment	-	6,130
Repairs and maintenance	6,498	8,060
Security	6,500	8,189
Staff costs (Note 9)	212,756	147,805
Administration and other expenses	410,096	318,400
Gross claims	1,044,827	287,473
Reinsurance recoveries	(803,396)	(54,262)
Claims expense, net of reinsurance recoveries	241,431	233,211
Commission	101,908	90,113

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9. Staff Costs

	2016 $'000	2015 $'000
Wages and salaries	172,024	112,917
Payroll taxes – employer's portion	17,498	12,069
Pension costs – defined contribution	5,821	4,049
Other staff costs	17,413	18,770
	212,756	147,805

10. Investment Income

	2016 $'000	2015 $'000
Interest income	39,753	57,404
Dividend income	2,535	1,053
	42,288	58,457

11. Other Income

	2016 $'000	2015 $'000
Rental income	8,350	8,061
Net foreign exchange gains	9,900	4,806
Miscellaneous income	2,030	2,050
	20,280	14,917

12. Taxation

(a) The company's shares were listed on the Junior Market of the Jamaica Stock Exchange, effective 31 March 2016. Consequently, the company is entitled to a remission of tax for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years:

Years 1 to 5 100%
Years 6 to 10 50%

The financial statements have been prepared on the basis that the company will have the full benefit of the tax remissions.

Taxation is based on the result for the year adjusted for taxation purposes and represents income tax at 33⅓%:

	2016 $'000	2015 $'000
Current year taxation charge	-	3,589
Deferred taxation (Note 23)	(8,326)	198
	(8,326)	3,787

12. Taxation (Continued)

Subject to agreement with Tax Administration Jamaica, the company has losses available for offset against future taxable profits of approximately $70,692,000 (2015 - $15,888,000) which may be carried forward indefinitely.

The tax on the company's profit differs from the threshold amount that would arise using the tax rate of 33⅓ % as follows:

	2016 $'000	2015 $'000
(Loss)/Profit before taxation	(50,560)	26,871
Tax calculated at a rate of 33⅓ %	(16,853)	8,956
Adjusted for the effects of:		
Income not subject to tax	(3,914)	(10,422)
Expenses not deductible for tax purposes	1,458	4,811
Effect of tax change in tax status on deferred taxation	10,681	-
Other	302	442
Tax (credit)/charge	(8,326)	3,787

13. Cash and Deposits

	2016 $'000	2015 $'000
Cash at bank and in hand	60,244	14,677
Short-term deposits (Including repurchase agreements)	390,325	171,053
Interest receivable	696	193
Cash and deposits	451,265	185,923
Bank overdraft	(1,663)	(150)
	449,602	185,773
Hypothecated funds	(3,000)	(3,000)
Interest receivable	(697)	(193)
Cash and cash equivalents	445,905	182,580

Short term deposits include a balance of $3,000,000 (2015 - $3,000,000) which has been hypothecated to the Bank of Nova Scotia Limited as security for a credit card facility.

The effective weighted average interest rates on deposits and overdraft are as follows:

	2016 %	2015 %
Jamaican dollar deposits	4.18	2.52
United States dollar deposits	1.84	1.65

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14. Investment Securities

Investments comprise the following:

	2016 $'000	2015 $'000
Available for sale		
Government of Jamaica –		
Bonds	422,084	717,043
Interest receivable	7,384	15,512
	429,468	732,555
Corporate	6,463	-
Equities	71,548	40,827
	507,479	773,382

For the year ended 31 December 2016, there was a total unrealised loss of $ nil (31 December 2015 - $1,524,000) on securities that were transferred from held to maturity to available for sale in 2015.

Investment securities include securities with a face value of $45,000,000 (2015 - $45,000,000) which have been pledged with the Regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

The current portion of investment securities amounted to $ 272,627,000 (2015 - $456,355,000).

15. Due from Policyholders, Brokers and Agents

	2016 $'000	2015 $'000
Premiums receivable	162,956	98,691
Less: Provision for impairment	(23,672)	(21,821)
	139,284	76,870

16. Due from Reinsurers

Amounts recoverable from reinsurers comprise:

	2016 $'000	2015 $'000
Unearned premium	156,154	170,414
Claims outstanding	338,186	58,009
Claims IBNR	7,863	(17,052)
	502,203	211,371

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

17. Other Receivables

	2016 $'000	2015 $'000
Staff loans	1,338	1,702
Other	(1,058)	1,999
	280	3,701

Balances relating to staff loans are due within 12 months of the reporting date.

18. Related Party Transactions and Balances

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

(a) Transactions with related parties were as follows:

	2016 $'000	2015 $'000
Directors' emoluments-		
Fees	12,810	8,075
Management remuneration	48,433	21,493

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18. Related Party Transactions and Balances (Continued)

(b) Key management compensation

	2016 $'000	2015 $'000
Wages and salaries	65,354	35,937
Payroll taxes – Employer's portion	6,263	3,372
Pension costs	3,065	1,557
	74,682	40,866

19. Investment Properties

Investment properties relate to land owned by the company. These properties were valued at current market value as at 30 September 2016 by E. Maitland Realtor, and NAI Jamaica Langford and Brown qualified property appraisers and valuators, in their reports dated 11 October 2016 and 14 November 2016 respectively. The properties include land which has been leased to third parties for use as parking facilities.

The movement on investment property balance during the year is as follows:

	2016 $'000	2015 $'000
At beginning of year	173,100	152,020
Fair value gains	12,050	21,080
At end of year	185,150	173,100

The following amounts have been recognised in income in the Statement of Comprehensive Income:

	2016 $'000	2015 $'000
Rental income arising from investment properties	8,350	8,061
Operating expenses incurred on investment properties	-	422

20. Intangible Assets

	Computer Software
	$'000
At Cost -	
At 1 January 2015 and 1 January 2016	12,494
Additions during 2016	157
31 December 2016	12,651
Amortisation -	
At 1 January 2015	11,296
Amortised for the year	100
At 31 December 2015	11,396
Amortised for the year	106
At 31 December 2016	11,502
Net Book Value -	
31 December 2016	1,149
31 December 2015	1,098

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21. Property, Plant and Equipment

	Land and Buildings $'000	Leasehold Improvements $'000	Computer Equipment $'000	Motor Vehicles $'000	Furniture and Fixtures $'000	Total $'000
			2016			
At Cost/Valuation -						
At 1 January	261,798	22,122	25,129	15,242	43,364	367,655
Additions	3,609	2,501	5,234	10,928	5,485	27,757
Disposals	-	-	-	(800)	-	(800)
Revaluation	16,998	-	-	-	-	16,998
At 31 December	282,405	24,623	30,363	25,370	48,849	411,610
Depreciation -						
At 1 January	16,697	16,686	17,844	14,472	20,867	86,566
Disposal	-	-	-	(800)	-	(800)
Charge for the year	4,281	946	2,668	1,711	2,485	12,091
At 31 December	20,978	17,632	20,512	15,383	23,352	97,857
Net Book Value -						
31 December	261,427	6,991	9,851	9,987	25,497	313,753

21. Property, Plant and Equipment (Continued)

	Land and Buildings $'000	Leasehold Improvements $'000	Computer Equipment $'000	Motor Vehicles $'000	Furniture and Fixtures $'000	Total $'000
			2015			
At Cost/Valuation -						
At 1 January	269,700	22,122	19,996	15,242	47,373	374,433
Additions	4,284	-	5,133	-	3,008	12,425
Disposals	(25,216)	-	-	-	(7,017)	(32,233)
Revaluation	13,030	-	-	-	-	13,030
At 31 December	261,798	22,122	25,129	15,242	43,364	367,655
Depreciation -						
At 1 January	15,658	15,740	15,914	14,051	25,842	87,205
Disposal	(3,614)	-	-	-	(7,017)	(10,631)
Charge for the year	4,653	946	1,930	421	2,042	9,992
At 31 December	16,697	16,686	17,844	14,472	20,867	86,566
Net Book Value -						
31 December	245,101	5,436	7,285	770	22,499	281,089

Land and buildings were valued at current market values as at 31 December 2016. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2016 $'000	2015 $'000
Cost	155,810	152,201
Accumulated depreciation	(8,330)	(8,140)
	147,480	144,061

22. Other Payables

	2016 $'000	2015 $'000
Accrued expenses	6,748	10,310
Accrued payroll expenses	6,812	854
Statutory	7,118	4,675
Other	5,117	10,580
	25,795	26,419

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23. Deferred Taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 1/3%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to setoff current tax assets against current tax liabilities.

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

	2016 $'000	2015 $'000
At the beginning of the year	(14,076)	(13,071)
Deferred tax credited/(charged) to other comprehensive income (Note 27)	6,616	(807)
Deferred tax credited/(charged) to profit or loss in the statement of comprehensive income (Note 12)	8,326	(198)
At end of year	866	(14,076)

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

	Tax losses $'000	Accelerated tax depreciation $'000	Revaluation gains on buildings $'000	Interest Accrued $'000	Total $'000
At 1 January 2015	9,047	984	(18,802)	(4,300)	(13,071)
Deferred tax charged to other comprehensive income	-	-	(807)	-	(807)
Deferred tax (charged)/credited to profit in the statement of comprehensive income	(3,751)	4,490	-	(937)	(198)
At 31 December 2015	5,296	5,474	(19,609)	(5,237)	(14,076)
Deferred tax credited to other comprehensive income	-	-	6,616	-	6,616
Deferred tax (charged)/credited to profit in the statement of comprehensive income	8,563	(5,474)	-	5,237	8,326
At 31 December 2016	13,859	-	(12,993)	-	866

	2016 $'000	2015 $'000
Deferred tax liabilities that are expected to be settled after more than 12 months after the year end	12,993	19,609
Deferred tax assets that are expected to be recovered after more than 12 months after the year end	13,859	5,474

24. Insurance Reserves

	2016 $'000	2015 $'000
Provision for unexpired risks	52,621	25,594
Provision for unearned premiums	430,607	333,037
Unearned commissions	32,631	33,967
Provision for claims IBNR, PFAD & UCAE	174,517	143,148
Claims outstanding	647,028	394,961
	1,337,404	930,707

Included in the provision for claims IBNR and claims outstanding is a provision for adverse deviation of $87,623,000 (2015 - $55,631,000).

	Gross Liabilities 2016 $'000	Ceded 2016 $'000	Net Liabilities 2016 $'000
Provision for unexpired risks	52,621	-	52,621
Provision for unearned premiums	430,608	156,154	274,454
Unearned commissions	32,631	-	32,631
Provision for claims IBNR	53,955	(16,279)	70,234
Provision for adverse deviation	87,623	24,143	63,480
Unallocated claim adjustment expenses	32,940	-	32,940
Claims outstanding	647,028	338,186	308,842
	1,337,406	502,204	837,202

An actuarial valuation was performed by the company's appointed actuary, Eckler Ltd., to value the policy and claims liabilities of the company as at 31 December 2016, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles.

	Gross Liabilities 2015 $'000	Ceded 2015 $'000	Net Liabilities 2015 $'000
Provision for unexpired risks	25,594	-	25,594
Provision for unearned premiums	333,037	170,414	162,623
Unearned commissions	33,967	-	33,967
Provision for claims IBNR	50,085	(19,870)	69,955
Provision for adverse deviation	55,631	2,818	52,813
Unallocated claim adjustment expenses	37,432	-	37,432
Claims outstanding	394,961	58,009	336,952
	930,707	211,371	719,336

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24. Insurance Reserves (Continued)

In his opinion dated 28 March 2017 the actuary found that the amount of policy and claims liabilities represented in the balance sheet at 31 December 2016 makes proper provision for the future payments under the company's policies and meets the requirements of the Insurance Act and other appropriate regulations of Jamaica; that a proper charge on account of these liabilities has been made in the statement of operations; and that there is sufficient capital available to meet the solvency standards as established by the FSC.

(a) Actuarial data

The data employed in the analysis of outstanding claims and premium liabilities was taken directly from the company's records. Individual items (on both a gross and net basis) used in estimating liabilities as at 31 December 2016 were as follows, grouped by each accident year from 2000 to 2016:

(i) Claims incurred and paid for accident years 2000 onwards.

(ii) Loss adjustment expenses paid for accident years 2000 onwards.

(iii) Paid and incurred large loss amounts in each accident year from 2000 onwards.

(iv) Earned premiums for each year from 2000 to 2016.

(b) Actuarial assumptions

In accordance with IFRS 4, the Liability Adequacy Test was taken into consideration in determining the adequacy of insurance reserves reported by the company.

In applying the noted methodologies, the following assumptions were made:

(i) With respect to the analysis of incurred claims development history, the level of case reserve adequacy is relatively consistent, in inflation adjusted terms, over the experience period.

(ii) With respect to the analysis of the net paid claims development history, the rate of payment of the incurred losses for the recent history is indicative of future settlement patterns.

(iii) With respect to the Loss Development and Bornhuetter-Ferguson methods, the average ultimate loss ratio for recent accident years, adjusted for claims inflation and changes in average rate level, is representative of the expected loss ratio for the most recent accident year.

(iv) The claims inflation rate implicitly used in the valuation is equivalent to that rate which is part of historical data.

There were no significant changes in assumptions or methods during the year.

24. Insurance Reserves (Continued)

(c) Provision for adverse deviation assumptions

Any discrepancy which may ultimately arise between the statistical estimates of outstanding claims and the actual future experience is uncertain. The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

(d) Movement in reserves, insurance assets and deferred policy acquisition cost

	2016 **$'000**	**2015** **$'000**
Unexpired risk reserve:		
At the beginning of the year	25,594	46,856
Recognised in profit or loss	27,027	(21,262)
At the end of the year	52,621	25,594
Provision for unearned premium:		
At the beginning of the year	333,037	322,178
Premiums written during the year	1,081,746	960,973
Premiums earned during the year	(984,176)	(950,114)
At the end of the year	430,607	333,037
Unearned commissions:		
At the beginning of the year	33,967	29,073
Commissions on reinsurance premium written during the year	78,292	85,579
Earned commission recognized in profit or loss	(79,628)	(80,685)
At the end of the year	32,631	33,967

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24. Insurance Reserves (Continued)

(d) Change in insurance liabilities (continued)

	2016 $'000	2015 $'000
Provision for claims IBNR:		
At the beginning of the year	160,200	117,120
Current year recognized as part of claims expense – IBNR Gross	31,369	43,454
Current year recognized as part of claims expense – IBNR Recoverable	(24,915)	(375)
At the end of the year	166,654	160,199
Gross Claims Outstanding:		
At the beginning of the year	394,961	370,384
Recognised as part of claims expense in profit of loss	1,038,373	244,394
Gross amount paid during the year	(786,306)	(219,817)
At the end of the year	647,027	394,961
Deferred policy acquisition cost:		
At the beginning of the year	70,778	84,621
Commissions on premium written during the year	78,292	85,579
Direct premium expense incurred during the year	(101,907)	(90,113)
Change in deferred branch acquisition cost during year	65,240	(9,309)
At the end of the year	112,401	70,778
Unearned reinsurance premiums		
At the beginning of the year	170,414	146,532
Reinsurance premium ceded during the year	435,881	487,959
Reinsurance premium incurred during the year	(450,141)	(464,077)
At the end of the year	156,154	170,414

24. Insurance Reserves (Continued)

(e) Sensitivity analysis

The determination of the actuarial liabilities is heavily dependent on loss development factors, which are used to estimate the ultimate liability for each claim. In determining the loss development factors, the actuaries review patterns in relation to incurred and paid claims, as well as loss ratios for various lines of business. Management considers a 10% loss development ratios as a reasonably possible change. The table below shows the amounts by which gross and net IBNR will change, resulting from a 10% change in loss development factors.

	2016	
	Gross IBNR	Net IBNR
	$'000	$'000
10% increase in loss development	7,305	7,041
10% decrease in loss development	(7,495)	(7,251)

	2015	
	Gross IBNR	Net IBNR
	$'000	$'000
10% increase in loss development	9,817	10,018
10% decrease in loss development	(10,124)	(10,353)

25. Share Capital

	2016	**2015**
	$'000	**$'000**
Authorised -		
496,000,000 (2015 - 650,000) ordinary shares		
Issued and fully paid -		
368,460,863 (2015 - 636,635) ordinary shares at no par value	235,282	127,327

A resolution was passed at a General Meeting on 21 March 2016 that each of the authorised and issued shares of Key Insurance Company Limited be sub-divided into 496 ordinary shares (496 to 1). On 31 March 2016, the company issued 52,689,903 ordinary shares through an initial public offering at a value of $119,606,079. Costs associated with the share issue amounted to $16,011,478.

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26. Capital Reserve

	2016 $'000	2015 $'000
At end of year	57,371	57,371

During 2014, land and building with a value of $110,000,000 was transferred to the company to settle related party debt of $53,629,000. The amount recognised in capital reserve relates to the excess value over the receivables.

27. Fair Value Reserves

This represents unrealised gains and losses on the valuation of available-for-sale-investments, investment properties and property, plant and equipment, net of deferred taxes. Fair value gains on investment property have been transferred from retained earnings to the fair value reserve to prevent distribution of these gains, as they are unrealised.

	2016 $'000	2015 $'000
At beginning of year	243,950	194,321
Fair value gains on available-for-sale securities	24,538	16,326
Fair value gains on investment property	12,050	21,080
Revaluation gains on property, plant and equipment	16,999	13,030
Deferred tax credited/(charged) to other comprehensive income (Note 23)	6,616	(807)
At end of year	304,153	243,950

28. (Loss)/Earnings Per Share

	2016	2015
Net (Loss)/Profit from operations ($'000)	(42,234)	23,084
Weighted average number of ordinary shares in issue ('000)	355,288	315,771
(Loss)/Earnings per share	(0.12) cents	0.07 cents

29. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The operating segments are Motor and Non-Motor classes of insurance premium written. These two segments represent the company's strategic business units. The strategic business units offer different products, and are managed separately because they require among other things, different marketing strategies. For each of the strategic business units, the company's CEO reviews internal management reports on at least a monthly basis. These reports do not include details of segment assets. The following summary describes the operations in each of the company's reportable segments: motor and non-motor classes. The company sells motor policies and these range from comprehensive cover to third party act policies. The non-motor class comprises liability, property, engineering, travel, personal accident and miscellaneous accident classes. There are no inter-divisional sales.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss) before income tax, not including non-recurring gains and losses, as included in the internal management reports that are reviewed by the company's CEO.

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29. Segment Information (Continued)

Segment profit/(loss) is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on sales.

The company's operations are located entirely in Jamaica.

	2016		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross Premiums written	659,558	422,188	1,081,746
Reinsurance ceded	43,593	392,288	435,881
Net Premiums written	615,965	29,900	645,865
Change in unearned premium reserve, net	(105,878)	(5,952)	(111,830)
Net premiums earned	510,087	23,948	534,035
Underwriting expenses	612,261	46,952	659,213
Underwriting loss	(102,174)	(23,004)	(125,178)

No single customer accounted for 10% or more of total revenues of the company either in 2016 or in 2015.

	2015		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross Premiums written	472,948	488,025	960,973
Reinsurance ceded	24,346	463,613	487,959
Net Premiums written	448,602	24,412	473,014
Change in unearned premium reserve, net	7,055	5,968	13,023
Net premiums earned	455,657	30,380	486,037
Underwriting expenses	515,108	38,512	553,620
Underwriting loss	(59,451)	(8,132)	(67,583)

30. Operating Lease

The company leases various branch offices under operating lease agreements. The minimum lease payment for 2016 was $ 9,359,410 (2015 - $6,495,693). The leases expire between 2016 and 2018 with renewal options at the end of the lease periods. Included in lease payments for 2016 are amounts totaling $0 (2015 - $2,583,643) for locations whose leases expired within the year for which the new lease agreements have not been finalised.

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

	2016 $'000	2015 $'000
No later than 1 year	9,359	6,496
Later than 1 year and no later than 5 years	55,268	32,480
	64,627	38,976

31. Contingency

The company is involved in certain legal proceedings incidental to the normal course of business. Management believes that none of these legal proceedings, individually or in aggregate, will have a material effect on the company.

Form of Proxy - KEY INSURANCE COMPANY LIMITED

Place
$100.00
stamp
here

I/We…….....……

of ……...…….....……

…….....……..

being a member/members of Key Insurance Company Limited hereby appoint

…….....……..

…….....

of ……..……....…

…….....

or failing him/her…….....…….....

of…….....

as my/our proxy to vote for me/us on my/our behalf, at the Annual General Meeting of the Company to be held at The Valencia Suites, Spanish Court Hotel, 6 Worthington Avenue, Kingston 5, on Wednesday,14th day of June 2017, at 4:00 pm. and at any adjournment thereof.

Signed this……. day of……..20……

…….....Signature

……...Signature

NOTE: To be valid:

1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the company.

2) If executed by a corporation, this proxy must be sealed. A Corporate shareholder may appoint a representative in accordance to Article of the company's Articles of Association instead of appointing a proxy.

3) This Form of Proxy must be received by the Registrar of the Company, 6c Half Way Tree Road, Kingston, not less than 48 hours before the time of the meeting.

4) This Form of Proxy should bear stamp duty of $100.00. Adhesive stamps are to be cancelled by the person signing the proxy.

Key Insurance Company Limited
6c Half Way Tree Road, Kingston
Kingston, Jamaica
(876) 926-6278

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