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GK General Insurance Company Limited

Financial Statements
31 December 2016

GK General Insurance Company Limited
Index
31 December 2016

3. EXPRESSION OF OPINION

I have examined the financial condition and valued the policy and claims liabilities of GKICL for its balance sheet as at December 31, 2016 and the corresponding change in the policy and claims 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. I have relied upon PriceWaterhouseCoopers for the substantial accuracy of the records and information concerning other liabilities, as certified in the attached statement.

The results of my valuation together with amounts carried in the Annual Return are the following:

Claims Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Direct unpaid claims and adjustment expenses:	2,859,411	2,859,411
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	2,859,411	2,859,411
Ceded unpaid claims and adjustment expenses:	494,824	494,824
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	2,364,587	2,364,587

Policy Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		1,094,165
Net policy liabilities in connection with unearned premiums:		985,079
Gross unearned premiums:	2,233,459	
Net unearned premiums:	1,172,558	
Premium deficiency:	0	
Other net liabilities:	0	

In my opinion:

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

(ii) The valuation of policy and claims liabilities has been made in accordance with generally accepted actuarial practice with such changes as determined and directions made by the Commission;

(iii) The methods and assumptions used to calculate the policy and claims liabilities are appropriate to the circumstances of the company and of the said policies and claims;

(iv) The amount of policy and claims liabilities represented in the balance sheet of Jamaica International Insurance Company Limited makes proper provision for the future payments under the company's policies and meet the requirements of the Insurance Act and other appropriate regulations of Jamaica;

(v) A proper charge on account of these liabilities has been made in the statement of comprehensive income;

(vi) There is sufficient capital available to meet the solvency standards as established by the Commission

Josh Worsham, FCAS, MAAA	Josh Worsham	March 23, 2017
Name of Appointed Actuary	Signature of Appointed Actuary	Date

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Independent auditor's report

To the Members of GK General Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of GK General Insurance Company Limited (the Company) as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include 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.

Responsibilities of management for the financial statements

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

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.

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Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

PricewaterhouseCoopers

Chartered Accountants
27 March 2017
Kingston, Jamaica

GK General Insurance Company Limited

Statement of Financial Position

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2016 $'000	2015 $'000
Assets			
Cash and short term investments	8	689,205	187,150
Investments	9	4,621,437	4,991,126
Due from agents, brokers and policyholders	10	778,363	663,634
Recoverable from reinsurers and coinsurers	11	1,612,353	1,179,299
Deferred policy acquisition costs		181,278	176,675
Other receivables	12	33,455	11,542
Due from group companies	13	35,753	26,856
Taxation recoverable		-	45,413
Property, plant and equipment	14	453,495	416,792
Intangible assets	15	171,372	214,132
		8,576,711	7,912,619

GK General Insurance Company Limited

Statement of Financial Position (Continued)

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2016 $'000	2015 $'000
Liabilities and Shareholders' Equity			
Liabilities			
Bank overdraft	16	-	26,430
Due to reinsurers		235,578	268,488
Insurance reserves	17	5,292,274	4,830,803
Other payables	18	188,267	205,954
Taxation payable		39,632	-
Due to group companies	13	-	785
Deferred tax liabilities	19	21,136	17,281
Post-employment benefit obligations	20	304,302	263,281
		6,081,189	5,613,022
Shareholders' Equity			
Share capital	21	1,291,739	1,291,739
Capital and fair value reserves	22	293,935	247,097
Share options reserve		4,786	4,222
Retained earnings		905,062	756,539
		2,495,522	2,299,597
		8,576,711	7,912,619

Approved for issue by the Board of Directors on 20 March, 2017 and signed on its behalf by:

Gina Phillipps Black — Chairman

Grace Burnett — Managing Director

GK General 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		4,561,132	4,365,706
Reinsurance ceded		(2,260,262)	(2,087,772)
Net premiums written		2,300,870	2,277,934
Change in unearned premiums, net		(37,070)	(27,536)
Net Premiums Earned		2,263,800	2,250,398
Commission income		505,690	448,836
Commission expense		(373,040)	(371,177)
Claims expense	17	(1,256,019)	(1,126,749)
Underwriting expenses		(39,128)	(28,885)
Administration expenses		(989,585)	(999,036)
Underwriting Profit		111,718	173,387
Other income	23	505,349	450,870
Other operating expenses		(165,065)	(186,594)
Profit before Taxation		452,002	437,663
Taxation	26	(147,157)	(134,907)
Profit for the Year		304,845	302,756
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss			
Fair value gains on available-for-sale financial assets, net of taxes		9,437	1,046
Items that will not be reclassified to profit and loss			
Gains on revaluation of land and buildings, net of taxes		37,401	-
Re-measurements of post-employment benefit obligations		(6,721)	(39,787)
Other comprehensive income, net of taxes		40,117	(38,741)
Total Comprehensive Income		344,962	264,015

GK General Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Capital and Fair Value Reserves	Share Options Reserve	Retained Earnings	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	1,065,076	246,051	4,222	880,456	2,195,805
Profit for the year	-	-	-	302,756	302,756
Other comprehensive income:					
Fair value losses on available-for-sale financial assets, net of taxes	-	1,046	-	-	1,046
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(39,787)	(39,787)
	-	1,046	-	(39,787)	(38,741)
Total comprehensive income	-	1,046	-	262,969	264,015
Transactions with owners:					
Issue of preference share	226,663	-	-	-	226,663
Dividends on ordinary shares	-	-	-	(355,000)	(355,000)
Dividends on preference shares	-	-	-	(31,886)	(31,886)
Balance at 31 December 2015	1,291,739	247,097	4,222	756,539	2,299,597
Profit for the year	-	-	-	304,845	304,845
Other comprehensive income:					
Gains on revaluation of land and buildings, net of taxes	-	37,401	-	-	37,401
Fair value gains on available-for-sale financial assets, net of taxes	-	9,437	-	-	9,437
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(6,721)	(6,721)
	-	46,838	-	(6,721)	40,117
Total comprehensive income	-	46,838	-	298,124	344,962
Transactions with owners:					
Dividends on ordinary shares	-	-	-	(104,000)	(104,000)
Dividends on preference shares	-	-	-	(45,601)	(45,601)
Employee Share option scheme:					
Value of services rendered	-	-	564	-	564
Balance at 31 December 2016	1,291,739	293,935	4,786	905,062	2,495,522

GK General 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			
Premiums received		4,446,403	4,242,181
Reinsurance paid		(2,293,172)	(2,177,661)
Commissions received		506,410	467,716
Commissions paid		(377,643)	(385,627)
Claims paid	17	(1,211,793)	(1,194,599)
Rent received		-	659
Underwriting, administration and other operating expenditure paid		(1,136,190)	(1,101,430)
Other receipts, net		35,991	57,462
Taxation paid		(74,258)	(78,918)
Cash used in operating activities		(104,252)	(170,217)
Cash Flows from Investing Activities			
Interest received		322,844	330,629
Proceeds from sale of investment securities		2,750,413	2,185,990
Investments purchased		(2,281,538)	(2,535,569)
Additions to property, plant and equipment	14	(25,762)	(18,989)
Additions to intangible assets	15	(81)	(22,007)
Proceeds on disposal of property, plant and equipment		2,464	5,143
Cash provided/(used in) by investing activities		768,340	(54,803)
Cash Flows from Financing Activities			
Preference share issue		-	226,663
Preference dividends paid		(45,601)	(31,886)
Ordinary dividends paid		(104,000)	(355,000)
Cash used in financing activities		(149,601)	(160,223)
		514,487	(385,243)
Foreign exchange gains on cash and cash equivalents		13,998	3,552
Increase/(decrease) in cash and cash equivalents		528,485	(381,691)
Cash and cash equivalents at beginning of year		160,720	542,411
Cash and Cash Equivalents at End of Year	8	689,205	160,720

GK General Insurance Company Limited

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

1. Identification and Activities

(a) GK General Insurance Company Limited (formerly Jamaica International Insurance Company Limited) is a limited liability company incorporated and domiciled in Jamaica. The immediate parent company is GraceKennedy Financial Group Limited, and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The company also has issued preference shares, which are held by fellow subsidiary, GraceKennedy (St. Lucia) Limited. In 2015, the Board approved a rebranding exercise which resulted in the company's name being changed from Jamaica International Insurance Company Limited to GK General Insurance Company Limited.

(b) The registered office of the company, and its ultimate parent, is located at 73 Harbour Street, Kingston, Jamaica.

The company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal activity is the underwriting of general insurance business. The company issues insurance contracts in territories outside of Jamaica through brokers GK Insurance Brokers Limited (Turks & Caicos) and Cabrits Insurance Agency (Commonwealth of Dominica).

2. Significant Accounting Policies

The principal financial accounting policies adopted 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 conformity with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS and have been prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment and available-for-sale financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

New and amended standards and interpretations effective in the current year

Certain amendments and clarifications to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new amendments and clarifications and has put into effect the following, which are immediately relevant to its operations.

Amendment to IAS 1, 'Presentation of Financial Statements', (effective for annual periods beginning on or after 1 January 2016). This amendment forms part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. It clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment also clarifies that the share of other comprehensive income (OCI) of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. There was no significant impact from adoption of these amendments during the year.

GK General 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)

New and amended standards and interpretations effective in the current year (continued)

Annual Improvements 2014, (effective for annual periods beginning on or after 1 January 2016). The improvements consist of changes to a number of standards, of which the following may be relevant to the company's operations. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. There was no significant impact from adoption of these amendments during the year.

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

At the date of authorisation of these financial statements a number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the company, except the following set out below:

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2018). In July 2014, 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).

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 its cash flows, 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 own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

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.

While the company has yet to undertake a detailed assessment of the debt instruments currently classified as available-for-sale financial assets, it would appear that they would satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) based on their current business model for these assets. Hence there will be no change to the accounting for these assets.

The company does not currently have any financial liabilities that are designated at fair value through profit or loss or hedging activities and therefore no impact expected from the new requirements for financial liabilities and hedging rules respectively.

Regarding credit loss provisioning, the company expects that, as a result of the recognition and measurement of impairment under IFRS 9 being more forward-looking than under IAS 39, the resulting impairment charge may tend to be more volatile. It may also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

IFRS 15, 'Revenue from contracts with customers' (effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortized over the period when the benefits of the contract are consumed. The adoption of this standard is not expected to have a significant impact on the company's financial statements.

Amendment to IFRS 15, 'Revenue from contracts with customers' (effective for accounting periods beginning on or after 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company (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 may result in additional disclosure in the financial statements.

Amendments to IAS 12, 'Income Taxes, (effective for annual periods beginning on or after 1 January 2017). In January 2016, the IASB published amendments to IAS 12 clarifying specifically how to account for deferred tax assets related to debt instruments measured at fair value as well as clarifying the guidance for deferred tax assets in general by adding examples and elaborating on some of the requirements in more detail. The amendments do not change the underlying principles for the recognition of deferred tax assets. The company does not expect any significant impact on its financial statements arising from the future adoption of the amendments.

IFRIC 22,' Foreign currency transactions and advance consideration', (effective for annual periods beginning on or after 1 January 2018). The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. The company does not expect any significant impact on its financial statements arising from the future adoption of this interpretation.

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

Amendment to IFRS 4, 'Insurance Contracts' . The amendment addresses the concerns that have been expressed regarding the different effective dates of IFRS 9 (annual periods beginning on or after 1 January 2018) and the forthcoming new insurance contracts standard (not likely to be before 2021).

One of the main concerns was that applying IFRS 9 before applying the new insurance contracts standard may result in a temporary accounting mismatch and volatility in profit or loss. The reason for this is that under IFRS 9 certain financial assets have to be measured at fair value through profit or loss, whereas under current IFRS 4 the related liabilities from insurance contracts are often measured on a cost basis. This accounting mismatch may be temporary, because the new insurance contracts standard is expected to require insurers to discount their insurance contracts using a current interest rate and to allow reporting of the effect of changes in the interest rate in profit or loss.

Furthermore, several insurers were concerned about applying the classification and measurement requirements in IFRS 9 before being able to fully evaluate the new insurance contracts standard. Many considered two sets of major accounting changes within a short period of time as onerous.

The amendment offers insurers two possible solutions: a temporary exemption from IFRS 9 for annual periods beginning before 1 January 2021 and the 'overlay approach'. Both of these approaches are optional.

The temporary exemption from IFRS 9 addresses most of the concerns raised. However, it is only available for a limited period of time and in limited circumstances. In particular, it has to be applied at the level of the reporting entity. Even if a subsidiary might be eligible for the temporary exemption, it will still have to prepare financial information applying IFRS 9 for consolidation purposes if the parent entity cannot apply the temporary exemption.

Under the 'overlay approach' the company may reclassify from profit or loss to other comprehensive income any changes in the fair value of financial assets held in respect of an activity that is connected with contracts within the scope of IFRS 4, if these changes are recognised in profit or loss under IFRS 9, but not under IAS 39.

With respect to the temporary exemption from IFRS 9, the amendment is effective for annual periods beginning on or after 1 January 2018. The 'overlay approach' can be applied from the period in which the company first applies IFRS 9. If the company chooses to apply the 'overlay approach' it has to be applied retrospectively.

IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable, at the latest, at the point in time the new insurance standard becomes effective.

The company is currently assessing the impact of future adoption of this amendment on its financial statements.

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Foreign currency transactions are translated into the company's functional currency, Jamaican dollars, at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from such transactions and from the translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised in profit or loss.

Translation differences resulting from changes in the amortised cost of foreign currency denominated monetary assets classified as available-for-sale are recognised in profit or loss. Other changes in the fair value of these assets are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement 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 recognised in other comprehensive income.

(c) Financial instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, amounts due from or to policyholders, brokers, agents, reinsurers, other receivables, balances with group companies and other payables. The determination of the fair values of the company's financial instruments is discussed in Note 5.

(d) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value. Cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(e) Investments

The company classifies its investments as available-for-sale. Investments classified as available-for-sale are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates. Management determines the classification of investments at initial recognition and re-evaluates such designation at each reporting date.

Purchases and sales of investments are recognised at trade date, which is the date that the company commits to purchase or sell the asset. Investments classified as available-for-sale are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Investments are derecognised when the right to receive cash flows have expired or have been transferred and the company has transferred substantially all the risk and rewards of ownership.

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 the amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of 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 profit or loss as gains and losses from investment securities in 'other income'.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Investments (continued)

The company assesses at each reporting date whether there is objective evidence that an investment or group of investments is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses on equity instruments described as available for sale recognised in profit or loss are not reversed through profit or loss.

(f) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. The company's insurance contracts are classified as short-term insurance contracts which include casualty and property insurance contracts.

Casualty insurance contracts protect the company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employer's liability) and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium on in-force contracts that relates to unexpired period of risk carried at reporting date is reported as the unearned premium liability. Premiums are shown before commission expense.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to reporting date even if they have not yet been reported to the company. The company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the company. Statistical analysis is used to estimate claims incurred but not reported, as well as the expected ultimate cost of more complex claims that may be affected by external factors.

(g) Insurance receivables

Receivables are recognised when due, and are carried at cost, less provision for impairment, which is deemed to approximate the fair value of these short-term assets. These include amounts due from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss.

2. Significant Accounting Policies (Continued)

(h) Reinsurance ceded

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company are classified as reinsurance contracts.

The amounts to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short–term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Estimated amounts of reinsurance recoverable, which represent the unearned portion of premiums ceded to the reinsurers as well as claims recoverable from reinsurers, are included in recoverable from reinsurers on the statement of financial position.

The company relies upon reinsurance agreements to limit the potential for losses and to increase its capacity to write insurance. Reinsurance arrangements are effected under reinsurance treaties and by negotiation on individual risks. Reinsurance does not relieve the company from liability to its policyholders. To the extent that a reinsurer may be unable to pay losses for which it is liable under the terms of the reinsurance agreement, the company is exposed to the risk of liability for such losses. However, in an effort to reduce the risk of non-payment, the company performs financial strength assessments of its reinsurers and monitors risk concentration limits.

The company assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

(i) Deferred policy acquisition costs

The costs of acquiring and renewing insurance contracts (commission expense), which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subsequently amortised as the premium is earned over the life of the contracts. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

(j) Property, plant and equipment and depreciation

Land and buildings are shown at fair market value, based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure directly attributable to the acquisition of the items.

Increases in carrying amounts arising on revaluation are recognised in OCI and credited to capital and fair value reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the capital and fair value reserves, through OCI; all other decreases are charged to profit or loss.

2. Significant Accounting Policies (Continued)

(j) Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis at such rates that will write off the carrying value of the assets over the period of their expected useful lives. Land is not depreciated. The expected useful lives of the other property, plant and equipment are as follows:

Freehold building	60 years
Leasehold improvements	10 years
Furniture, fixtures and equipment	3 – 10 years
Motor vehicles	4 – 5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each year end. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit for the year.

Repairs and maintenance expenses are charged to profit or loss during the financial period in which they are incurred.

(k) Intangible assets

Separately acquired intangible assets are assessed annually for indicators of impairment and are carried at cost less any accumulated amortisation and impairment. The cost of separately acquired intangible assets comprises its purchase price, any directly attributable cost of preparing the asset for its intended use and professional fees directly attributed to acquiring the asset. Amortisation is calculated using the straight line method to allocate the cost of the assets over their estimated useful lives. The expected useful life of the intangible assets are as follows:

Policy contracts	15 years
Computer software	4 years

(l) Impairment of non financial 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 or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

GK General Insurance Company Limited

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

2. Significant Accounting Policies (Continued)

(m) Insurance reserves

Under the Insurance Regulations, 2001, the company is required to actuarially value its insurance reserves annually. Consequently, claims incurred but not reported (IBNR) as well as the unexpired period of risk reserve have been independently actuarially determined for the current year. The remaining reserves are also reviewed by the actuary in determining the overall adequacy of the provision for the company's insurance liabilities.

(i) 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 reporting date, and is computed by applying the 365th method to gross written premiums.

(ii) Unearned commission

The unearned commission represents the actual commission income on premium ceded on proportional reinsurance contracts relating to the unexpired period of risk carried. The income is deferred as unearned commission reserves, and amortised over the life of the period in which the commissions are expected to be earned. These reserves are calculated by applying the 365th method to gross commissions.

(iii) Claims outstanding

A provision is made to cover the estimated cost of settling claims arising out of events which occurred by the year end, including claims incurred but not reported (IBNR), less amounts already paid in respect of those claims. This provision is estimated by management (insurance case reserves) and the appointed actuary (IBNR) on the basis of claims admitted and intimated.

(iv) Claims incurred but not reported

The reserve for claims incurred but not reported (IBNR) has been calculated by an independent actuary using the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method (Note 17). This calculation is done in accordance with the Insurance Act 2001.

(v) Unexpired period of risk reserve

The provision for unexpired period of risks is determined by the appointed actuary and represents the expected future costs associated with the unexpired portion of policies in force as of the reporting date, in excess of the net unearned premium minus deferred policy acquisition costs.

(vi) 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 cashflows are compared to the carrying amount of policy liabilities and any deficiency is immediately recognised in profit or loss as unexpired risk provision.

(n) Other receivables and payables

Other receivables and payables, including balances with group companies, are stated at historical cost.

If there is objective evidence that other receivables are impaired, the company reduces the carrying amount of the receivable accordingly and recognises the impairment loss in profit or loss.

2. Significant Accounting Policies (Continued)

(o) Income taxes

Taxation expense in the statement of comprehensive income comprises current and deferred tax charges. Tax is recognised in net profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or equity, respectively.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when deferred income taxes relate to the same fiscal liability.

(p) Employee benefits

(i) Pension obligations

The company participates in a defined benefit plan operated by the ultimate parent. The defined benefit plan is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The ultimate parent company assumes the defined benefit pension obligations of all companies within the GraceKennedy Group participating in this scheme. As a result the ultimate parent company recognises the total pension assets and obligations in respect of this plan. Under this arrangement, the obligation of the company is limited to the regular monthly pension contributions. Contributions are recognised by the period in which they are incurred.

The company also participates in a defined contribution plan operated by the ultimate parent. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits due.

2. Significant Accounting Policies (Continued)

(p) Employee benefits (continued)

(ii) Other post-employment obligations

The company participates in a number of other post-employment schemes operated by GraceKennedy Limited. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability in respect of these obligations is the present value of the defined benefit obligation at reporting date, together with adjustments for actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of Government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the profit or loss.

(iii) Leave accrual

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

(iv) Termination benefits

Termination benefits are payable when employment is terminated 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 statement of financial position date are discounted to present value.

(v) Incentive plans

The company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit after certain adjustments. The company recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(vi) Equity compensation benefits

The company participates in an equity-settled, share-based compensation plan with its ultimate parent company, GraceKennedy Limited. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the weighted average price of the parent company's shares on the Jamaica Stock Exchange for the previous ten days and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital.

2. Significant Accounting Policies (Continued)

(q) Revenue and income 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:

Insurance contracts

Gross premiums written are recognised on a pro-rated basis over the life of the policies written (Note 2(f)). The portion of premiums written in the current year, which relates to coverage in subsequent years are deferred as unearned premiums (Note 2(m)(i)).

Commissions payable on premium income and commissions receivable on reinsurance of risks are charged and credited, respectively, over the life of the policies.

Interest income

Interest income is recognised within other income in profit or loss using the effective interest method.

Dividend income

Dividend income from equities is recognised within other income in profit or loss when the right to receive payment is established.

(r) Dividend distribution

Dividend distribution is recognised as a liability in the period in which the dividends are approved.

3. 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 insurance 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 for managing and monitoring risks, as follows:

(i) Investment and Loan Committee
The Investment and Loan Committee is responsible for monitoring and approving investment and liquidity strategies for the company. The Committee also assists the Board in its oversight of the company's exposure to credit risk, liquidity risk, market risk and operational risk.

(ii) Audit Committee
The Audit Committee assists the Board in its oversight of the risk management functions and processes of the company, reviews the adequacy of internal controls over risk management, and monitors the company's compliance with legal and regulatory requirements. The Audit Committee is assisted in its oversight role by the Internal Audit Department of the ultimate parent company, which regularly conducts reviews of key areas of risk.

(iii) Insurance Risk Committee
The Insurance Risk Committee oversees the company's insurance risk arrangements. The Committee's mandate is to ensure that the company's insurance risk appetite is appropriate and adhered to and that key insurance risks are identified and managed.

(iv) Conduct Review Committee
The Conduct Review Committee is responsible for the monitoring of related party transactions and ensuring that these are in the normal course of business, at arm's length and in the best interests of the company.

Management has also established the following framework for managing and monitoring risk:

(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 liquidity risk of the company.

GK General Insurance Company Limited

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

3. Insurance and Financial Risk Management (Continued)

(ii) Risk and Reinsurance Function
The Risk and Reinsurance function develops the company's insurance risk management framework and negotiate reinsurance (treaty and facultative) arrangements, including assessing the performance and credit worthiness of the reinsurers. They monitor the company's compliance with the insurance risk policies and procedures, by way of advisory activities, regular performance monitoring, exception reporting & audits conducted periodically.

The most important types of risks are insurance, credit, liquidity, market and other operational risk. Market risk includes currency risk, interest rate and other price risk.

(a) Insurance risk

The company issues contracts that transfer 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.

The principal risk that the company faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. 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 types of policies based on guidelines set by the Board of Directors. Insurance risk arising from the company's insurance contracts 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. The cost of rebuilding properties, on a replacement basis or indemnity for other assets and contents and the time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

3. 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 occur during the term of the contract. Some classes of insurance cover such as those involving liability are settled over a long period of time. The related claims provision on these classes would therefore include an IBNR portion. 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 reported claims not yet paid and a provision for IBNR.

The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the reporting 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.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Management sets policy and retention limits based on guidelines set by the Board of Directors. 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	1,279,391	10,235	900,225	7,202
Boiler and machinery	639,696	7,197	360,090	6,752
Engineering	639,696	7,197	360,090	6,752
Burglary, money and goods in transit	31,985	22,389	30,008	21,005
Glass	31,985	22,389	30,008	21,005
Other	31,985	22,389	30,008	21,005
Liability	383,817	38,382	360,090	36,009
Marine, aviation and transport	76,763	1,919	72,018	3,601
Motor	68,000	17,600	68,000	17,600
Pecuniary loss –				
Fidelity	31,985	22,389	30,008	21,005
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	31,985	22,389	30,008	21,005
Personal property	1,279,391	10,235	900,225	7,202

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Risk exposure and concentrations of risk

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarized below, with reference to the carrying amount of the insurance liabilities (gross and net of reinsurance) arising from insurance contract.

		2016				
Territory		Motor	Liability	Property	Other types of risks	Total
Jamaica	Gross	2,040,771	322,255	390,991	14,153	2,768,170
	Net	2,026,501	291,268	16,367	7,161	2,341,297
Turks and Caicos Island	Gross	72,642	1,006	-	-	73,648
	Net	4,691	1,006	-	-	5,697
Dominica	Gross	17,593	-	-	-	17,593
	Net	17,593	-	-	-	17,593
Total	Gross	2,131,006	323,261	390,991	14,153	2,859,411
	Net	2,048,785	292,274	16,367	7,161	2,364,587

		2015				
Territory		Motor	Liability	Property	Other types of risks	Total
Jamaica	Gross	1,980,474	334,205	143,375	21,232	2,479,286
	Net	1,975,619	290,283	3,830	10,110	2,279,842
Turks and Caicos Island	Gross	48,394	16,287	-	-	64,681
	Net	17,102	14,609	-	-	31,711
Dominica	Gross	8,714	-	726	42	9,482
	Net	8,688	-	91	29	8,808
Total	Gross	2,037,582	350,492	144,101	21,274	2,553,449
	Net	2,001,409	304,892	3,921	10,139	2,320,361

GK General Insurance Company Limited

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

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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. These factors are discussed below.

Actuarial Assumptions

(i) In applying the noted methodologies, the following assumptions were made:

- Claims inflation has remained relatively constant and there have been no material legislative changes in the Jamaican civil justice system that would cause claim inflation to increase dramatically.
- There is no latent environmental or asbestos exposure embedded in the company's loss history.
- The company's case reserving and claim payments rates have and will remain relatively constant.
- The overall development of claims costs gross of reinsurance is not materially different from the development of claims costs net of reinsurance. This assumption is supported by:
  - (a) The majority of the company's reinsurance program consists of proportional reinsurance agreements.
  - (b) The company's non-proportional reinsurance agreements consist primarily of high attachment points.
- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the Insurance Act, 2001.

For the Bornhuetter-Ferguson methods, the company has generally allowed a-priori loss ratios to remain the same as at previous evaluations. Management monitors these ratios at each review and will adjust if necessary, typically if long term loss ratios change or there is unexpected positive or negative development.

(ii) Scenario Testing

The two major assumptions that determine reserve levels are:

- The selection of a-priori loss ratios within the Bornhuetter-Ferguson methods (Note 4).
- The selection of loss development factors.

These factors have been stochastically modeled using various confidence intervals to determine the impact on the net reserves. The net reserves of $2,364,587,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by $86,407,000/($86,597,000).

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 the ultimate claims liability for accident years 2006 - 2016 has changed at successive year-ends, up to 2016. 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.

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

To limit its exposure of potential loss on an insurance policy or group of insurance policies, an insurer may cede certain levels of risk to a reinsurer or reinsurers. The company utilizes reinsurance treaties to reduce its net retained risk and uses a professional reinsurance broker for risk advice and to assist in the selection of reinsurers. The risk is spread over several reinsurers all of whom are highly rated by at least one of the four major rating agencies. The credit ratings of reinsurers are regularly monitored.

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

(a) The retention limit or maximum exposure on insurance policies for all reinsurance treaties for the company range between $3,838,000 and $38,382,000 (2015 - $3,601,000 and $36,009,000).

(b) The company's main treaty arrangements are as follows:

(i) Property and allied perils 80%:20% (2015 – 80%:20%) Quota Share of premiums i.e. 80% ceded premiums and 20% retention.
(ii) Excess of loss treaty for motor and third party liability, which covers losses in excess of US$300,000 (2015 – US$300,000) for any one loss or event.
(iii) Catastrophe excess of loss treaty which covers losses in various layers, the maximum of which is US$22,000,000 (2015 – US$22,000,000) for any one event.

(c) The amount of reinsurance recoveries recognised during the period is as follows:

	2016 $'000	2015 $'000
Property	715,955	126,254
Motor	61,893	37,391
Marine	3,281	4,975
Liability	18,419	(1,218)
Pecuniary loss	(2,588)	(75)
Personal accident	1,458	118
	798,418	167,445

(c) Financial risk

The company is exposed to financial risk through its financial assets and financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not 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.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and market risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the company's financial performance.

(i) Credit risk

The company takes on exposure to credit risk, which is the risk that its reinsurers, brokers, customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit risk is the most important risk 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, insurance brokers and agents 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

The company's Investment and Loan Committee monitors the credit risk associated with premiums receivable as well as those associated with investments using information supplied by management. The Risk and Reinsurance Function periodically assesses the financial strength of reinsurers.

(a) 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. Additionally, Internal Audit makes regular reviews to assess the degree of compliance with company procedures on credit.

(b) Investments

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

(c) 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 ordinarily liable for the payment to the claimant. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The Risk and Reinsurance Function assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

GK General Insurance Company Limited

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Exposure to credit risk

	2016 $'000	2015 $'000
Cash and short term investments	689,053	186,990
Investments	4,600,508	4,968,698
Due from agents, brokers & policyholders	778,363	663,634
Recoverable from reinsurers and coinsurers	551,452	236,117
Other receivables	7,488	9,329
Due from group companies	35,753	26,856
	6,662,617	6,091,624

The above table represents a worst case scenario of credit risk exposure to the company at year end.

Ageing analysis of amounts due from agents, brokers & policyholders past due but not impaired:

Amounts due from agents, brokers & policyholders that are less than three months old are not considered impaired. As at year end, amounts due from agents, brokers & policyholders of $72,784,000 (2015 - $108,639,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2016 $'000	2015 $'000
31 to 60 days	37,651	65,927
More than 60 days	35,133	42,712
	72,784	108,639

Amounts due from agents, brokers & policyholders of $385,000 (2015 - $385,000) were considered impaired and have been fully provided for at the year-end. These receivables are all aged over 90 days. The movement in the provision is as follows:

	2016 $'000	2015 $'000
At start of year	385	1,895
Written off as uncollectible	-	(1,510)
At end of year	385	385

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Amounts due from agents, brokers & policyholders

Note 10 summarises the company's credit exposure for amounts due from agents, brokers & policyholders at their carrying amounts. The majority of amounts due are receivable from customers and brokers in Jamaica.

Debt securities

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

	2016 $'000	2015 $'000
Government of Jamaica	2,367,024	2,410,449
Bank of Jamaica	880,464	705,130
Corporate	1,813,654	1,931,027
Other governments	48,822	45,768
	5,109,964	5,092,374

(ii) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they become due. The consequence may be the failure to meet obligations to fulfil claims and other liabilities incurred.

Liquidity risk management process

The company's liquidity management process, as carried out by management and monitored by the Investment and Loan Committee, includes:

(i) Monitoring future cash flows and liquidity on a periodic basis. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure funding if required;

(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 statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

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

GK General Insurance Company Limited

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, as these are key periods for liquidity management. 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.

Financial and insurance liabilities cash flows

The tables below present the undiscounted cash flows payable of the company's financial liabilities and estimated cash flows of recognised insurance liabilities based on contractual repayment obligations. The company has no liabilities contractually due past one year.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	Total $'000
		2016		
Due to reinsurers	14,177	221,401	-	235,578
Claims outstanding	2,859,412	-	-	2,859,412
Other payables	19,105	107,700	61,462	188,267
	2,892,694	329,101	61,462	3,283,257
		2015		
Bank overdraft	26,430	-	-	26,430
Due to reinsurers	41,895	226,593	-	268,488
Claims outstanding	2,553,449	-	-	2,553,449
Other payables	49,279	102,286	54,389	205,954
Due to group companies	785	-	-	785
	2,671,838	328,879	54,389	3,055,106

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Assets available to meet all of the liabilities and to cover financial and insurance liabilities include cash and bank balances and investment securities. The company is able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and financing institutions.

(iii) Market risk

The company takes on exposure to market risks, which is the risk that the fair value of 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 carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

Currency risk

Currency risk is the risk that the fair value of 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, maximising foreign currency earnings and holding foreign currency balances.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Concentrations of currency risk

The table below summarises the company's exposure to foreign currency at year end.

	CAN$	EC$ J$'000	US$ J$'000	Total J$'000
		2016		
Assets				
Cash & short term investments	-	23,154	288,247	311,401
Investments	-	48,823	1,179,290	1,228,113
Due from agents, brokers & policyholders	395	4,506	192,943	197,844
Recoverable from reinsurers and coinsurers	-	11,100	1,041,514	1,052,614
Deferred policy acquisition costs	41	3,943	67,386	71,370
Total financial assets	436	91,526	2,769,380	2,861,342
Liabilities				
Due to reinsurers	-	(4,824)	(185,800)	(190,624)
Insurance reserves	(529)	(46,712)	(1,257,310)	(1,304,551)
Total financial liabilities	(529)	(51,536)	(1,443,110)	(1,495,175)
Net financial position	(93)	39,990	1,326,270	1,366,167
		2015		
Assets				
Cash & short term investments	-	16,359	70,557	86,916
Investments	-	45,768	1,177,329	1,223,097
Due from agents, brokers & policyholders	-	7,639	110,038	117,677
Recoverable from reinsurers and coinsurers	-	14,367	692,083	706,450
Deferred policy acquisition costs	-	4,465	70,756	75,221
Total financial assets	-	88,598	2,120,763	2,209,361
Liabilities				
Due to reinsurers	-	(7,368)	(65,163)	(72,531)
Insurance reserves	-	(32,935)	(892,345)	(925,280)
Total financial liabilities	-	(40,303)	(957,508)	(997,811)
Net financial position	-	48,295	1,163,255	1,211,550

GK General Insurance Company Limited

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the company had exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in the US dollar and EC dollar exchange rates. The sensitivity analysis represents outstanding US$ denominated and EC$ denominated monetary items and adjusts their translation at the year-end for a 1% appreciation and a 6% depreciation (2015 – 1% revaluation and 8% devaluation of the Jamaican dollar against these currencies. The percentage change in the currency rate will impact each financial asset/liability included in the sensitivity analysis differently. Consequently, individual sensitivity analyses were performed. The effect on profit or loss shown below is the total of the individual sensitivities done for each of the assets/liabilities. There is no sensitivity on the company's other components of equity as the company does not enter into cash flow hedges.

	% Change in Currency Rate 2016	Effect on Profit before Taxation 2016 $'000	% Change in Currency Rate 2015	Effect on Profit before Taxation 2015 $'000
US$ (J$ Appreciation)	1%	(13,263)	1%	(11,633)
US$ (J$ Depreciation)	6%	79,576	8%	93,060
EC$ (J$ Appreciation)	1%	(400)	1%	(483)
EC$ (J$ Depreciation)	6%	2,399	8%	3,864

GK General Insurance Company Limited

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value of 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 Investment and Loan 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 through the adherence to a prescribed maturity profile.

The following tables summarise the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. There is no interest rate risk arising from the company's insurance assets and liabilities.

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
				2016			
Financial Assets							
Cash & short term investments	579,606	109,447	-	-	-	152	689,205
Investments	648,668	1,304,706	1,662,761	248,235	736,137	20,930	4,621,437
Due from group companies	-	-	-	-	-	35,753	35,753
Other receivables	-	-	-	-	-	33,455	33,455
Total financial assets	1,228,274	1,414,153	1,662,761	248,235	736,137	90,290	5,379,850
Financial Liabilities							
Other payables	-	-	-	-	-	(188,267)	(188,267)
Total financial	-	-	-	-	-	(188,267)	(188,267)
Total interest	1,228,274	1,414,153	1,662,761	248,235	736,137	(97,977)	5,191,583

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Interest Bearing $'000	Total $'000
				2015			
Financial Assets							
Cash & short term investments	99,203	87,787	-	-	-	160	187,150
Investments	65,267	1,355,105	1,301,01	1,362,829	822,807	84,099	4,991,126
Due from group companies	-	-	-	-	-	26,856	26,856
Other receivables	-	-	-	-	-	11,542	11,542
Total financial assets	164,470	1,442,892	1,301,01	1,362,829	822,807	122,657	5,216,674
Financial Liabilities							
Other payables	-	-	-	-	-	(205,954)	(205,954)
Due to group companies	-	-	-	-	-	(785)	(785)
Bank overdraft	(26,430)	-	-	-	-	-	(26,430)
Total financial liabilities	(26,430)	-	-	-	-	(206,739)	(233,169)
Total interest repricing	138,040	1,442,892	1,301,01	1,362,829	822,807	(84,082)	4,983,505

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's profit or loss and shareholders' equity.

The company's interest rate risk arises from investments and cash and short term investments. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net profit and other components of equity based on floating rate financial assets. The sensitivity of other components of equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be on an individual basis.

Change in basis points 2016 JMD / USD	Effect on Profit before Taxation 2016 $'000	Effect on Other Components of Equity 2016 $'000	Change in basis points 2015 JMD / USD	Effect on Profit before Taxation 2015 $'000	Effect on Other Components of Equity 2015 $'000
-100/-50	(10,942)	40,365	-150/-50	(13,357)	19,556
+100/+100	10,942	(37,615)	+100/+100	8,905	(17,228)

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company is exposed to no significant levels of equity price risk except through equity investments held and classified on the statement of financial position as available for sale. This does not represent a significant risk to the company. The company is not exposed to commodity price risk.

4. Capital Management

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

- To comply with the capital requirements set by the regulators of the insurance markets within which the company operates;
- To safeguard the company's ability to continue as a going concern so that it can continue to provide an appropriate level of return for its parent as well as benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy is managed and monitored by the company's management, the audit committee and the board of directors. The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT). The minimum standard stipulated by the Regulation 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) Regulations, 2013 is that a general insurance company shall have a minimum MCT percentage of 250% for the financial year end 2016. This information is required to be included in the company's annual returns filed with the Financial Services Commission (FSC). The MCT percentages for the company for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Actual MCT percentage	270%	263%
Minimum Required MCT percentage	250%	250%

The company has capital management requirements arising from its registration with regulators in the Commonwealth of Dominica and Turks & Caicos, which it has met. The company is also required to hold minimum levels of regulatory capital with its regulators in Turks & Caicos and the Commonwealth of Dominica which it has maintained (Note 9).

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

5. Fair Value Estimates

(a) Valuation techniques and assumptions
Financial instruments
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. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the company. Therefore, for financial instruments 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 statement of financial position date.

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) Debt securities classified as available-for-sale are measured at fair value based upon projected cash flows discounted at current market rates which have been determined through the use of quotations and yields obtained from independent brokers.

(ii) The fair values of quoted investments are based on current bid prices.

(iii) The fair value of liquid assets and other assets maturing within three 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.

(iv) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts, as these instruments are expected to reprice at the prevailing market rates.

(v) Based on the nature of the unquoted investments and the specificity of their operations within the general insurance industry, the fair values are expected to approximate to their carrying amounts.

Land & buildings
An independent valuation of the company's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2016. The revaluation surplus, net of applicable deferred income taxes, was credited to other comprehensive income and is shown in capital and fair value reserves in shareholders' equity (Note 22).

Fair values of land and buildings have been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

GK General Insurance Company Limited

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

5. Fair Value Estimates (Continued)

(b) Fair value hierarchy

At year end, the company held financial instruments, and land & buildings carried at fair value on the statement of financial position and used the following hierarchy for determining and disclosing the fair value of those financial instruments by valuation technique:

- Level 1 includes instruments/property measured at quoted prices in active markets for identical assets or liabilities.
- Level 2 includes instruments/property measured using inputs, other than quoted prices, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments/property which are measured using valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Financial instruments

The following table provides an analysis of financial instruments held as at 31 December that, subsequent to initial recognition are measured at fair value. The financial instruments are grouped into levels 1 to 2 based on the degree to which the fair values are observable according to the Levels mentioned above.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
		2016		
Available-for-sale securities:				
Quoted equities	20,930	-	-	20,930
Government of Jamaica securities	-	2,367,024	-	2,367,024
Bank of Jamaica securities	-	880,464	-	880,464
Corporate bonds	-	286,466	-	286,466
Reverse repurchase agreements	-	762,334	-	762,334
Certificate of deposits	-	764,853	-	764,853
Other debt securities	-	48,823	-	48,823
	20,930	5,109,964	-	5,130,894
Available-for-sale securities:		2015		
Quoted equities	22,427	-	-	22,427
Government of Jamaica securities	-	2,410,449	-	2,410,449
Bank of Jamaica securities	-	705,130	-	705,130
Corporate bonds	-	278,034	-	278,034
Reverse repurchase agreements	-	820,128	-	820,128
Certificate of deposits	-	832,865	-	832,865
Other debt securities	-	45,768	-	45,768
	22,427	5,092,374	-	5,114,801

5. Fair Value Estimates (Continued)

(b) Fair value hierarchy (continued)

Land & buildings

Land & buildings have been classified as Level 3, because 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, quality of land and 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. There was no movement between levels during the year.

6. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the future. Estimates and judgements 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Liabilities arising from claims made under insurance contracts

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 reporting date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amounts 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.

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.

Fair value of financial assets determined using valuation techniques

As described in Note 5, where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

GK General Insurance Company Limited

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

6. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Fair value of land and buildings

The company carries its freehold property at fair market value, with changes in fair value being recognised in capital reserve through other comprehensive income. GK Group engaged independent, qualified property appraisers to assess fair value as at 31 December 2016 for revalued land and buildings. Those fair values were derived using the sales comparison approach, which references market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The most significant input into this valuation approach is price per square foot. Significant increases (decreases) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value.

Valuation of post-employment benefit obligation

Actuarial valuations are conducted to determine the cost of defined benefit pension plans and other post-employment benefits. These valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in these estimates, and the sensitivity of the estimate to changes in these assumptions, are contained in Note 20.

7. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors, pursuant to the Insurance Act, appoints the actuary. His responsibility is to carry out an annual valuation of the company's insurance reserves in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders.

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their 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 his report on the insurance liabilities.

8. Cash and Cash Equivalents

	2016 $'000	2015 $'000
Cash at bank and in hand	179,748	63,474
Short term investments (Note 9)	509,457	123,676
	689,205	187,150
Bank overdraft (Note 16)	-	(26,430)
	689,205	160,720

Short term investments are debt instruments with an original maturity of up to 90 days, which are classified as cash and cash equivalents. Short term investments include interest receivable of $1,431,000 (2015 – $201,000).

The effective weighted average interest rates on short term investments are as follows:

	2016 %	2015 %
Jamaican dollar denominated	5.48	6.08
United States dollar denominated	1.70	2.25

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

9. Investments

Investments are classified as available-for-sale and comprise the following:

	Years to Maturity					
	Within 1 year $'000	1 to 5 years $'000	5 to 10 years $'000	Over 10 years $'000	Total 2016 $'000	Total 2015 $'000
Debt securities, at fair value -						
Issued by:						
Government of Jamaica	487,274	902,857	674,327	302,566	2,367,024	2,410,449
Bank of Jamaica	750,787	65,246	64,431	-	880,464	705,130
Corporate-						
Bonds	234,378	-	52,088	-	286,466	278,034
Reverse repurchase agreements	762,334	-	-	-	762,334	820,128
Certificate of deposits	764,853	-	-	-	764,853	832,865
Sort term deposits	48,823	-	-	-	48,823	45,768
	3,048,449	968,103	790,846	302,566	5,109,964	5,092,374
Short term investments (Note 8)					(509,457)	(123,676)
					4,600,507	4,968,698
Quoted equity securities, at fair value					19,890	20,717
Preference shares, at fair value					1,040	1,710
Unquoted equity securities, at cost					-	1
					4,621,437	4,991,126

Investments include interest receivable of $50,847,000 (2015 – $61,873,000).

Securities with an original maturity of up to 90 days are regarded as short term investments and have been included in cash and cash equivalents (Note 8).

Included in investments are Government of Jamaica debt securities with a face value of $50,000,000, which have been pledged with the regulator, the Financial Services Commission, pursuant to Regulation 8(1) (b) of the Insurance Regulations, 2001. Also included are Certificates of Deposits valued at US$500,000; J$64,796,000 (2015 – US$500,000; J$60,014,000) which have been pledged with the regulator in Turks and Caicos and other short term deposits which have been pledged with the regulator in the Commonwealth of Dominica of EC$1,000,000; J$48,823,000 (2015 – EC$1,000,000; J$44,435,000).

10. Due from Agents, Brokers and Policyholders

	2016 $'000	2015 $'000
Insurance receivables –		
Agents and brokers	673,637	449,034
Policyholders	104,726	214,600
	778,363	663,634

11. Recoverable from Reinsurers and Coinsurers

	2016 $'000	2015 $'000
Claims recoverable from reinsurers and coinsurers	56,628	3,029
Reinsurers' portion of claims outstanding (Note 17)	494,824	233,088
Reinsurers' portion of unearned premiums (Note 17)	1,060,901	943,182
	1,612,353	1,179,299

12. Other Receivables

	2016 $'000	2015 $'000
Staff loans	2,046	4,938
Prepayments	25,967	2,175
Other	5,442	4,429
	33,455	11,542

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

13. Related Party Transactions and Balances

(a) The statement of financial position includes the following balances with key management personnel and directors of the company:

	2016 $'000	2015 $'000
Premiums receivable	351	-

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

	2016 $'000	2015 $'000
Cash and short term investments –		
Fellow subsidiaries	101,835	27,500
Ultimate parent company	468	468
	102,303	27,968
Investments –		
Fellow subsidiaries	51,442	810
Ultimate parent company	184,686	175,420
	236,128	176,230
Due from agents, brokers and policyholders –		
Fellow subsidiaries	61,784	59,643
Ultimate parent company	3,195	896
	64,979	60,539
Due from/(to) group companies, net -		
Fellow subsidiaries	31,259	26,817
Ultimate parent company	4,494	(746)
	35,753	26,071
Other payables – Fellow subsidiary	88,484	4,047
Bank overdraft – Fellow subsidiary	-	26,430
Claims outstanding (gross) -		
Fellow subsidiaries	116,138	115,931
Ultimate parent company	21,715	10,504
	137,853	126,435

GK General Insurance Company Limited

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

13. Related Party Transactions and Balances (Continued)

(c) Profit or loss includes the following transactions with key management personnel and directors of the company:

	2016 $'000	2015 $'000
Staff costs –		
Wages and salaries	40,316	56,231
Statutory contributions	4,436	5,424
Directors' emoluments -		
Fees	3,276	2,588
Management remuneration (included in staff costs above)	22,140	24,137
Gross premiums written	2,836	1,895
Claims expense	1,958	1,174

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

13. Related Party Transactions and Balances (Continued)

(d) Profit or loss includes the following transactions with group companies:

	2016 $'000	2015 $'000
Gross premiums written –		
Fellow subsidiaries	259,104	347,337
Parent company	443	506
Ultimate parent company	77,543	73,809
	337,090	421,652
Reinsurance ceded – Fellow subsidiaries	84,502	92,775
Commission income – Fellow subsidiaries	11,242	11,046
Commission expense – Fellow subsidiaries	124,622	126,553
Claims expense (gross) –		
Fellow subsidiaries	29,444	77,622
Ultimate parent company	14,784	8,968
	44,228	86,590
Administration expenses –		
Parent company	71,819	52,516
Fellow subsidiaries	1,724	1,799
	73,543	54,315
Other operating expenses –		
Allocation of central office expenses paid to parent company	165,065	186,594
Interest earned -		
Fellow subsidiaries	3,888	1,679
Ultimate parent company	15,388	13,467
	19,276	15,146
Management fee income	11,729	13,290
Royalty expense – Fellow subsidiary	45,699	44,853

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

14. Property, Plant and Equipment

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2016		
At Cost or Valuation -					
At 1 January 2016	336,744	48,810	129,277	40,632	555,463
Additions	1,888	363	8,573	14,938	25,762
Disposals	-	-	(987)	(7,352)	(8,339)
Revaluation	42,368	-	-	-	42,368
At 31 December 2016	381,000	49,173	136,863	48,218	615,254
Depreciation -					
At 1 January 2016	4,346	20,621	90,062	23,642	138,671
Charge for the year	4,358	4,882	20,118	9,854	39,212
On disposals	-	-	(68)	(7,352)	(7,420)
Revaluation	(8,704)	-	-	-	(8,704)
At 31 December 2016	-	25,503	110,112	26,144	161,759
Net Book Value -					
31 December 2016	381,000	23,670	26,751	22,074	453,495

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

14. Property, Plant and Equipment (Continued)

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2015		
At Cost or Valuation -					
At 1 January 2015	333,000	48,810	122,839	41,407	546,056
Additions	3,744	-	7,329	7,916	18,989
Disposals	-	-	(891)	(8,691)	(9,582)
At 31 December 2015	336,744	48,810	129,277	40,632	555,463
Depreciation -					
At 1 January 2015	-	15,741	77,766	20,677	114,184
Charge for the year	4,346	4,880	12,972	8,411	30,609
On disposals	-	-	(676)	(5,446)	(6,122)
At 31 December 2015	4,346	20,621	90,062	23,642	138,671
Net Book Value -					
31 December 2015	332,398	28,189	39,215	16,990	416,792

Land and buildings are carried at fair market value based on a valuation in 2016 by D.C. Tavares & Finson Company Limited, professional valuators. If land and buildings were stated on the historical cost basis, the cost would be $65,024,000 (2015 – $63,136,000) with accumulated depreciation of $17,544,000 (2015 – $16,460,000).

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

15. Intangible Assets

	Policy Contracts $'000	Computer Software $'000	Total $'000
		2016	
At Cost -			
At 1 January 2016	589,088	42,693	631,781
Additions	-	81	81
At 31 December 2016	589,088	42,774	631,862
Amortisation -			
At 1 January 2016	392,724	24,925	417,649
Amortisation charge	39,273	3,568	42,841
At 31 December 2016	431,997	28,493	460,490
Net Book Value -			
31 December 2016	157,091	14,281	171,372
		2015	
At Cost -			
At 1 January 2015	589,088	20,686	609,774
Additions	-	22,007	22,007
At 31 December 2015	589,088	42,693	631,781
Amortisation -			
At 1 January 2015	353,452	17,839	371,291
Amortisation charge	39,272	7,086	46,358
At 31 December 2015	392,724	24,925	417,649
Net Book Value -			
31 December 2015	196,364	17,768	214,132

The company assumed the complete portfolio of Jamaican policies held by Dyoll Insurance Company Limited. The cost of the transaction, including directly attributable fees and expenses, was $589,088,000. The intangible asset is being amortised over 15 years using the straight line method, commencing 1 January 2006.

The company tests annually for indicators of impairment of intangible assets. This requires an estimation of the recoverable amount of the intangible asset. The recoverable amount is determined by estimating the expected future cash flows from the cash generating unit and using a discount rate of 12.5%, calculating the present value of those future cash flows. Expected future cash flows are based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using an estimated growth rate of 2%.

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

16. Bank Overdraft

The company does not have an overdraft facility. The 2015 bank overdraft balance was due to unpresented cheques.

17. Insurance Reserves

	2016 $'000	2015 $'000
Gross –		
Claims outstanding	2,859,411	2,553,449
Unearned premiums	2,233,459	2,078,670
Unearned commission	199,404	198,684
	5,292,274	4,830,803
Reinsurance ceded –		
Claims outstanding (Note 11)	494,824	233,088
Unearned premiums (Note 11)	1,060,901	943,182
	1,555,725	1,176,270
Net –		
Claims outstanding	2,364,587	2,320,361
Unearned premiums	1,172,558	1,135,488
Unearned commission	199,404	198,684
	3,736,549	3,654,533

An actuarial valuation was performed to value the policy and claims liabilities of the company as at 31 December 2016 in accordance with the Insurance Act of Jamaica by the appointed actuary, Josh Worsham, FCAS, MAAA of Mid Atlantic Actuarial. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles. The actuary has stated that his report conforms to the standards of practice as established by the Canadian Institute of Actuaries, with such changes as directed by the Financial Services Commission, specifically, that the valuation of some policy and claims liabilities not reflect the time value of money.

In arriving at his valuation, the actuary employed the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method.

17. Insurance Reserves (Continued)

In using the Paid/Incurred Loss Development methods, ultimate losses are estimated by calculating past paid/incurred loss development factors and applying them to exposure periods with further expected paid/incurred loss development. The Bornhuetter-Ferguson Paid/Incurred Loss methods is a combination of the Paid/Incurred Loss Development methods and a loss ratio method; however, these expected losses are modified to the extent paid/incurred losses to date differ from what would have been expected based on the selected paid/incurred loss development pattern. Finally, the Frequency-Severity method is calculated by multiplying an estimate of ultimate claims with an estimate of the ultimate severity per reported claim.

In his opinion dated 23 March 2017 the actuary found that the amount of policy and claims liabilities represented in the statement of financial position 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 profit or loss; and that there is sufficient capital available to meet the solvency standards as established by the Financial Services Commission.

The movement in claims outstanding was as follows:

	2016 $'000	2015 $'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	2,553,449	2,547,324
Reinsurance ceded	(233,088)	(159,113)
	2,320,361	2,388,211
Movement during the year –		
Claims incurred, including IBNR	1,256,019	1,126,749
Claims paid	(1,211,793)	(1,194,599)
	44,226	(67,850)
Net reserves for claims outstanding at end of year	2,364,587	2,320,361
Reinsurance ceded	494,824	233,088
Gross reserves for claims outstanding at end of year	2,859,411	2,553,449

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the reporting date. The reserve for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

GK General Insurance Company Limited

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

18. Other Payables

	2016 $'000	2015 $'000
Accruals	102,093	115,513
Other	86,174	90,441
	188,267	205,954

19. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33⅓%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Deferred tax assets and liabilities recognised in the statements of financial position are as follows:

	2016 $'000	2015 $'000
Deferred income tax assets	(120,781)	(100,524)
Deferred income tax liabilities	141,917	117,805
At end of year	21,136	17,281

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

	2016 $'000	2015 $'000
At beginning of year	17,281	62,699
Tax recognised in profit or loss (Note 27)	(12,146)	(26,048)
Tax recognised in other comprehensive income	16,001	(19,370)
At end of year	21,136	17,281

Deferred tax (charged)/credited against items of other comprehensive income is as follows:

	2016		
	Before tax	Tax charge	After tax
	$'000	$'000	$'000
Item that may be subsequently reclassified to profit or loss:			
Fair value gains on available-for-sale investments	14,156	(4,719)	9,437
Revaluation gains on buildings	51,595	(14,194)	37,401
Items that will not be reclassified to profit or loss:			
Re-measurement of other post-employment benefit obligation	(10,082)	3,361	(6,721)
	55,669	(15,552)	40,117

GK General Insurance Company Limited

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

19. Deferred Income Taxes (Continued)

Deferred tax (charged)/credited against items of other comprehensive income is as follows (continued):

	2015		
	Before tax	Tax charge	After tax
	$'000	$'000	$'000
Item that may be subsequently reclassified to profit or loss:			
Fair value gains on available-for-sale investments	1,569	(523)	1,046
Items that will not be reclassified to profit or loss:			
Re-measurement of other post-employment benefit obligation	(59,680)	19,893	(39,787)
	(58,111)	19,370	(38,741)

The movement in deferred tax liabilities and assets, prior to appropriate offsetting, is as follows:

Deferred tax assets	Employee benefits obligation	Accelerated depreciation	Other	Total
	$'000	$'000	$'000	$'000
At 1 January 2015	54,993	919	5,719	61,631
Recognised in profit or loss	12,874	9,095	(2,969)	19,000
Recognised in other comprehensive income	19,893	-	-	19,893
At 31 December 2015	87,760	10,014	2,750	100,524
Recognised in profit or loss	10,313	5,564	1,019	16,896
Recognised in other comprehensive income	3,361	-	-	3,361
At 31 December 2016	101,434	15,578	3,769	120,781

Deferred tax liabilities	Revaluation of buildings	Interest receivable	Foreign exchange	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2015	82,203	22,240	19,887	-	124,330
Recognised in profit or loss	-	(1,616)	(5,432)	-	(7,048)
Recognised in other comprehensive income	-	-	-	523	523
At 31 December 2015	82,203	20,624	14,455	523	117,805
Recognised in profit or loss	-	(3,675)	8,425	-	4,750
Recognised in other comprehensive income	14,194	-	-	5,168	19,362
At 31 December 2016	96,397	16,949	22,880	5,691	141,917

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

19. Deferred Income Taxes (Continued)

These balances include the following:

	2016 $'000	2015 $'000
Deferred tax liabilities to be settled after more than 12 months	96,397	88,822
Deferred tax assets to be recovered after more than 12 months	114,256	99,421

20. Pensions and Other Post-Employment Obligations

Pensions

The company participates in a defined contribution pension scheme and a defined benefit pension scheme operated by the ultimate parent company, GraceKennedy Limited and administered by PWL Transition Limited, in which eligible permanent employees must participate.

Defined contribution scheme
The defined contribution pension scheme is open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The company's contribution for the year was $11,009,000 (2015 - $11,350,000).

Defined benefit scheme
The plan, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.02% (2015 – 0.02%) as recommended by independent actuaries. Pension at normal retirement age is based on 2% final average earnings times the number of years of pensionable service. Final average earnings is the average of the highest three years annual salary earned by the member during his last ten years of service immediately preceding his actual retirement date, and in respect of which he had made contributions to the scheme. The scheme was closed to new members as at 31 March 2010. The company's contribution for the year was $41,000 (2015 - $35,000).

The group had a stated policy for charging the net defined benefit cost of the plan across participating subsidiaries. In the event of a plan surplus, the group was able to take a contribution holiday, while a funding deficiency required the group to make additional contributions to adequately fund the plan. At each valuation, the participating subsidiaries were allocated plan assets sufficient to at least cover the present value of the funded obligations.

Effective 2014, GraceKennedy Limited assumed responsibility for the defined benefit pension obligations of all companies within the Group participating in this scheme. As a result, the parent company recognises the total pension assets and obligations in respect of this plan. The obligation of other participating companies is now limited to the regular monthly pension contributions.

Other post-employment obligations

The company participates in a number of other schemes operated by GraceKennedy Limited, which provide retirement benefits. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

20. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations (continued)

The amounts recognised in the statement of financial position were determined as follows:

	2016 $'000	2015 $'000
Present value of unfunded obligations	304,302	263,281

The amounts recognised in the statement of comprehensive income were determined as follows:

	2016 $'000	2015 $'000
Post-employment obligations	(10,082)	(59,680)

The movement in the present value of obligation over the year is as follows:

	2016 $'000	2015 $'000
Balance at beginning of year	263,281	164,979
Current service cost	15,762	10,800
Past service cost	(2,499)	16,312
Interest cost	22,198	15,488
	35,461	42,600
Remeasurements:		
Losses from change in financial assumptions	15,680	22,481
Losses from change in demographic assumptions	7,638	28,925
Experience losses	(13,235)	8,274
	10,082	59,680
Benefits paid	(4,522)	(3,978)
Balance at end of year	304,302	263,281

The amounts recognised in the income statement are as follows:

	2016 $'000	2015 $'000
Current service cost	15,762	10,800
Interest cost	(2,499)	15,488
Past service cost	22,198	16,312
Total, included in staff costs (Note 26)	35,461	42,600

The total charge was included in administration expenses.

GK General Insurance Company Limited

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

20. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations **(continued)**

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

	2016 $'000	2015 $'000
Gratuity Plan	40,731	39,412
Group Life Plan	60,722	58,508
Insured Group Health	111,923	94,649
Self Insured Health Plan	85,658	65,476
Supplementary Pension Plan	5,268	5,236
Liability in the statement of financial position	304,302	263,281

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	Impact on post-employment obligations		
	Change in Assumption	Increase in Assumption $'000	Decrease in Assumption $'000
Discount rate	1%	31,639	(40,780)
Medical inflation rate	1%	(40,956)	32,269

20. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations **(continued)**

Risks associated with pension plans and post-employment plans

Through its defined benefit pension plan and other post-employment benefits, the Company is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities.

Inflation risk

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for formulating and monitoring investment portfolios and investment strategies for the plan. The Committee is also responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. A large portion of assets in 2016 consists of bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate by the company is 0.02% of pensionable salaries. The next triennial valuation is due to be completed as at 31 December 2016.

20. Pensions and Other Post-Employment Obligations (Continued)

Other post-employment obligations **(continued)**

Risks associated with pension plans and post-employment plans

The group considers contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment obligations is as follows:

Plans	Years
Gratuity Plan	9.9
Group Life Plan	14.6
Insured Group Health	20.8
Self Insured Health Plan	17.0
Superannuation plan	8.3

21. Share Capital

	2016 $'000	2015 $'000
Authorised, issued and fully paid -		
862,064,000 Ordinary shares at no par value	862,064	862,064
3,131,900 (2015- 3,131,900) Preference shares	429,675	429,675
	1,291,739	1,291,739

The preference shares are issued to GraceKennedy (St. Lucia) Limited, a fellow subsidiary, and carry no voting rights for the holder. The shares may not be redeemed at the request of the holder. The company has no obligation to redeem the shares and they are subordinate to the company's obligations to its policyholders and unsecured creditors. In any event, any redemption shall be subject to the approval, in writing, of the FSC. Dividends for the preference shares are paid at the discretion of the Board of Directors but in any given financial year shall not exceed 8% of the total capital paid up on the preference shares, and are not cumulative.

GK General Insurance Company Limited
Notes to the Financial Statements
31 December 2016
(expressed in Jamaican dollars unless otherwise indicated)

22. Capital and Fair Value Reserves

	2016 $'000	2015 $'000
Realised gain on sale of investments	824	824
Unrealised gains on the revaluation of available-for-sale investments	11,906	2,469
Unrealised surplus on the revaluation of property, plant and equipment	281,205	243,804
	293,935	247,097

23. Other Income

	2016 $'000	2015 $'000
Dividend income	818	2,136
Fronting fees	18,580	15,508
Gain on the sale of investments	8,637	14,230
Interest earned – available for sale securities	312,019	329,736
Gain on disposal of property, plant and equipment	3,181	1,683
Miscellaneous income	48,187	30,724
Net foreign exchange gains	113,927	56,194
Rental income	-	659
	505,349	450,870

GK General Insurance Company Limited

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

24. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2016 $'000	2015 $'000
Advertising and public relations	35,113	20,588
Allocation of central office expenses paid to parent company	165,065	186,594
Amortisation of intangible assets	42,841	46,357
Asset tax	11,811	12,066
Auditor's remuneration	5,121	4,700
Bad debt expense	3,383	455
Bank charges	16,747	13,772
Data processing	87,752	85,318
Depreciation	39,212	30,609
Directors' fees	2,648	2,588
Occupancy - rent, utilities, insurance, security	50,677	55,873
Office expenses	29,944	31,083
Professional fees	6,110	4,779
Registration fees and stamp duty	22,075	21,581
Repairs and maintenance	8,775	8,909
Royalty expense	45,699	44,853
Staff costs (Note 25)	581,495	614,722
Strategic planning expenses	182	783
Underwriting expenses	39,128	28,885
	1,193,778	1,214,515

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2016

(expressed in Jamaican dollars unless otherwise indicated)

25. Staff Costs

	2016 $'000	2015 $'000
Wages and salaries	396,764	433,800
Statutory contributions	44,121	43,932
Pension – defined contribution (Note 20)	11,009	11,350
Other post-employment obligations (Note 20)	35,461	42,600
Redundancy costs	495	-
Other	93,645	83,040
	581,495	614,722

The number of persons employed full-time by the company at year-end was 130 (2015 – 150).

26. Taxation

Taxation is based on the profit for the year and comprises income tax at 33⅓%:

	2016 $'000	2015 $'000
Current taxation	159,303	160,955
Deferred taxation (Note 19)	(12,146)	(26,048)
	147,157	134,907

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

	2016 $'000	2015 $'000
Profit before taxation	452,002	437,663
Tax calculated at a tax rate of 33⅓%	150,667	145,888
Adjusted for the effects of –		
Expense not deductible for tax purposes	4,373	7,334
Income not subject to tax	(8,445)	(12,567)
Prior year over provision- deferred taxation	-	(9,613)
Dividend paid on preference shares	(15,200)	(10,629)
Amortisation of Dyoll portfolio	13,091	13,091
Other	2,671	1,403
	147,157	134,907

GK General Insurance Company Limited

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

27. Contingent Liabilities

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

28. Subsequent Event

In January 2017, the Financial Services Commission (FSC) announced decision to allow for the relaxation of the Minimum Capital Test (MCT) ratio of 250% to 150%, which would reduce the regulatory capital requirements for general insurance companies. The relaxation of the MCT ratio is for a period not exceeding two years, during which time the FSC will conduct a Quantitative Impact Study. During this period, there will be a limit on dividend payments which should not exceed 50% of reported profit for the previous year. This change may have a positive impact on the company's growth initiatives.