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GK General Insurance Company Limited

Financial Statements
31 December 2017

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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, 2017 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:	4,043,559	4,043,559
Assumed unpaid claims and adjustment expenses:	0	0
Gross unpaid claims and adjustment expenses:	4,043,559	4,043,559
Ceded unpaid claims and adjustment expenses:	1,623,966	1,623,966
Other amounts to recover:	0	0
Other net liabilities:	0	0
Net unpaid claims and adjustment expenses:	2,419,593	2,419,593

Policy Liabilities (J$000)	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		1,184,529
Net policy liabilities in connection with unearned premiums:		1,077,546
Gross unearned premiums:	2,310,180	
Net unearned premiums:	1,311,121	
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 22, 2018
Name of Appointed Actuary	Signature of Appointed Actuary	Date

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 give a true and fair view of the financial position of GK General Insurance Company Limited (the Company) as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- 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 of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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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.

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 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 2018
Kingston, Jamaica

GK General Insurance Company Limited

Statement of Financial Position

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Assets			
Cash and deposits	8	823,434	738,028
Available-for-sale financial assets	9	4,316,926	4,572,614
Due from agents, brokers and policyholders	10	842,749	778,363
Recoverable from reinsurers and coinsurers	11	2,690,521	1,612,353
Deferred policy acquisition costs		192,667	181,278
Other receivables	12	50,380	33,455
Due from group companies	13	91,076	35,753
Taxation recoverable		75,810	-
Property, plant and equipment	14	739,365	453,495
Intangible assets	15	183,554	171,372
		10,006,482	8,576,711

GK General Insurance Company Limited

Statement of Financial Position (Continued)

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Liabilities and Shareholders' Equity			
Liabilities			
Due to reinsurers		229,386	235,578
Insurance reserves	16	6,551,039	5,292,274
Other payables	17	218,940	188,267
Taxation payable		-	39,632
Due to group companies	13	3,476	-
Deferred tax liabilities	18	6,732	21,136
Post-employment benefit obligations	19	354,897	304,302
		7,364,470	6,081,189
Shareholders' Equity			
Share capital	20	1,291,739	1,291,739
Capital and fair value reserves	21	337,947	293,935
Share options reserve		6,795	4,786
Retained earnings		1,005,531	905,062
		2,642,012	2,495,522
		10,006,482	8,576,711

Approved for issue by the Board of Directors on 27 March 2018 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 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Gross Premiums Written		4,643,390	4,561,132
Reinsurance ceded		(2,072,887)	(2,260,262)
Net premiums written		2,570,503	2,300,870
Change in unearned premiums, net		(138,563)	(37,070)
Net Premiums Earned		2,431,940	2,263,800
Commission income		421,931	505,690
Commission expense		(396,675)	(373,040)
Claims expense	16	(1,540,331)	(1,256,019)
Underwriting expenses		(43,664)	(39,128)
Administration expenses		(993,184)	(989,585)
Underwriting (Loss)/ Profit		(119,983)	111,718
Other income	22	423,440	505,349
Other operating expenses		(102,728)	(165,065)
Profit before Taxation		200,729	452,002
Taxation	25	(46,366)	(147,157)
Profit for the Year		154,363	304,845
Other Comprehensive Income:			
Item that may be reclassified to profit or loss			
Fair value gains on available-for-sale financial assets, net of taxes		44,012	9,437
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		(9,162)	(6,721)
Other comprehensive income, net of taxes		34,850	40,117
Total Comprehensive Income		189,213	344,962

GK General Insurance Company Limited

Statement of Changes in Equity

Year ended 31 December 2017

(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 2016	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
Profit for the year	-	-	-	154,363	154,363
Other comprehensive income:					
Fair value gains on available-for-sale financial assets, net of taxes	-	44,012	-	-	44,012
Re-measurements of post-employment benefit obligations, net of taxes	-	-	-	(9,162)	(9,162)
	-	44,012	-	(9,162)	34,850
Total comprehensive income	-	44,012	-	145,201	189,213
Transactions with owners:					
Dividends on preference shares	-	-	-	(44,732)	(44,732)
Employee Share option scheme:					
Value of services rendered	-	-	2,009	-	2,009
Balance at 31 December 2017	1,291,739	337,947	6,795	1,005,531	2,642,012

GK General Insurance Company Limited

Statement of Cash Flows

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 $'000	2016 $'000
Cash Flows from Operating Activities			
Premiums received		4,579,004	4,446,403
Reinsurance paid		(2,079,079)	(2,293,172)
Commissions received		419,827	506,410
Commissions paid		(408,064)	(377,643)
Claims paid	16	(1,485,325)	(1,211,793)
Rent received		60,987	-
Underwriting, administration and other operating expenditure paid		(973,354)	(1,136,190)
Other payments, net		(6,368)	35,991
Taxation paid		(193,639)	(74,258)
Net cash used in operating activities		(86,011)	(104,252)
Cash Flows from Investing Activities			
Interest received		293,171	322,844
Proceeds from sale of investment securities		2,918,072	2,750,413
Investments securities purchased		(2,610,194)	(2,281,538)
Additions to property, plant and equipment	14	(319,619)	(25,762)
Additions to intangible assets	15	(57,030)	(81)
Proceeds on disposal of property, plant and equipment		10,938	2,464
Net cash provided by investing activities		235,338	768,340
Cash Flows from Financing Activities			
Preference dividends paid		(44,732)	(45,601)
Ordinary dividends paid		-	(104,000)
Net cash used in financing activities		(44,732)	(149,601)
Net increase in cash and cash equivalents		104,595	514,487
Cash and cash equivalents at beginning of year		689,205	160,720
Foreign exchange (loss)/gain on cash and cash equivalents		(17,889)	13,998
Cash and Cash Equivalents at End of Year	8	775,911	689,205

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.

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. There was no significant impact from the adoption of these amendments during the year as the company's financing activity is limited to dividends paid.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

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. There was no significant impact from the 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 on or 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) specifies how an entity should classify and measure financial instruments, including some hybrid contracts. It requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and subsequently measured at amortised cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. There has been no significant change in the recognition and measurement of financial liabilities carried at amortised cost from that obtained under IAS 39. While adoption of IFRS 9 is mandatory from 1 January 2018, earlier adoption is permitted.

IFRS 9 also 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.

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)

An amendment to IFRS 9 was also published during the period and is effective for annual periods beginning on or after 1 January 2019 but can be early adopted 1 January 2018. The amendment covers two issues: Financial assets with prepayment features with negative compensation and modifications of financial liabilities.

The company is in the process of finalising the impact of IFRS 9 on its financial statements. A Steering Committee was created and lead by the Group Finance Unit to oversee the implementation project. The project involves three main phases:

- Phase 1: Diagnostic assessment – This includes a detailed assessment of the requirement of the standard and the expected impact on the company's operation. This phase also includes an assessment of the nature of the financial instruments as well as deciding on their measurement and classification taking into account the business model and whether the cash flows from each represent solely the payment of principal and interest;

- Phase 2: Data Gap Analysis – Based on management's conclusion in phase 1, this includes a determination of the information that would be required to establish the company's expected credit loss model and the associated input (probability of default, loss given default, exposure at default, effective interest rate and forward looking indicator) and determine whether such information is currently available.

- Phase 3: Embedding – This includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

The company has substantially completed Phase 1 and Phase 2 and key decisions around classification and measurement as well as the quality of available information are currently being reviewed.

Classification and measurement

The standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed.

Debt Instruments
The company currently classifies its investment securities as available for sale. Based on the conditions for classification, the company expects that majority of its investments will meet the 'solely payments of principal and interest' (SPPI) criteria. Debt instruments are largely held to collect contractual cash flows or are liquidated to meet liquidity requirements or maintain a specific interest yield profile. These instruments will be measured at either amortised cost or FVOCI. The change to amortised cost will result in the reversal of cumulative fair value gains/(losses) for related instruments as at 1 January 2018. There is no impact for investments measured at FVOCI.

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)

Classification and measurement (continued)

Equity instruments
The company currently classifies its equity instruments as available for sale. With the adoption of IFRS 9, the company will measure its equity instruments at FVTPL, except in instances where the company has elected to irrevocable designate equity instruments at FVOCI. The related fair value gains/(losses) on instruments measured at FVTPL on 1 January 2018 will be transferred from the fair value reserve to retained earnings on initial application. Fair value gains/(losses) on instruments measured at FVOCI will no longer be reclassified to profit or loss when disposed.

Financial liabilities
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.

Impairment

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 lifetime 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.

GK General Insurance Company Limited

Notes to the Financial Statements

31 December 2017

(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 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.

IFRS 17, 'Insurance contracts', (effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of discount probability –weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

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.

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 has assessed and determined that, while it is eligible for the exemption, it will still need to adopt IFRS 9 since its parent company cannot apply the temporary exemption.

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)

Amendments to IAS 19, 'Employee benefits', (effective for annual periods beginning on or after 1 January 2019). These amendments require an entity to use updated assumptions to determined current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

Annual improvements to IFRS 2015 - 2017 Cycle – Amendments to IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019). The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The company is currently assessing the impact of future adoption of the new standard on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

(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.

2. Significant Accounting Policies (Continued)

(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'.

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.

2. Significant Accounting Policies (Continued)

(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.

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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.

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 16). 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.

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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.

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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.

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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:

	2017		2016	
	Policy Limit $'000	Maximum Net Retention $'000	Policy Limit $'000	Maximum Net Retention $'000
Commercial property –				
Fire and consequential loss	1,243,041	9,944	1,279,391	10,235
Boiler and machinery	615,305	6,992	639,696	7,197
Engineering	615,305	6,992	639,696	7,197
Burglary, money and goods in transit	31,076	31,076	31,985	22,389
Glass	31,076	31,076	31,985	22,389
Other	31,076	31,076	31,985	22,389
Liability	372,912	37,291	383,817	38,382
Marine, aviation and transport	74,582	1,865	76,763	1,919
Motor	68,000	17,600	68,000	17,600
Pecuniary loss –				
Fidelity	31,076	31,076	31,985	22,389
Surety/Bonds	142,950	28,590	50,000	10,000
Personal accident	31,076	31,076	31,985	22,389
Personal property	1,243,041	9,944	1,279,391	10,235

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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.

		2017				
Territory		Motor	Liability	Property	Other types of risks	Total
Jamaica	Gross	1,974,243	299,434	362,347	9,437	2,645,461
	Net	1,953,036	278,633	27,653	7,158	2,266,480
Turks and Caicos Island	Gross	19,533	9,323	399,806	-	428,662
	Net	19,533	9,323	28,237	-	57,093
Dominica	Gross	35,621	-	933,815	-	969,436
	Net	35,621	-	60,399	-	96,020
Total	Gross	2,029,397	308,757	1,695,968	9,437	4,043,559
	Net	2,008,190	287,956	116,289	7,158	2,419,593

		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

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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 stochatistically modeled using various confidence intervals to determine the impact on the net reserves. The net reserves of $2,419,593,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by $89,980,000/($87,067,000).

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 - 2017 has changed at successive year-ends, up to 2017. 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.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities (continued)

		2008 and prior $'000	2009 $'000	2009 and prior $'000	2010 $'000	2010 and prior $'000	2011 $'000	2011 and prior $'000	2012 $'000	2012 and prior $'000	2013 $'000	2013 and prior $'000	2014 $'000	2014 and prior $'000	2015 $'000	2015 and prior $'000	2016 $'000	2016 and prior $'000	2017 $'000	2017 and prior $'000
2008	Paid during year	1,024,530																		
	UCAE, end of year	1,126,087																		
	IBNR, end of year	57,087																		
2009	Paid during year	499,068	584,808	1,083,876																
	UCAE, end of year	746,310	519,811	1,266,121																
	IBNR, end of year	4,867	50,684	55,551																
	Ratio: excess (deficiency)	(5.67%)																		
2010	Paid during year	231,265	236,570	467,835	559,019	1,026,854														
	UCAE, end of year	566,103	307,036	873,139	1,382,399	2,255,538														
	IBNR, end of year	-	-	-	63,254	63,254														
	Ratio: excess (deficiency)	(9.57%)		(1.46%)																
2011	Paid during year	136,872	100,905	237,777	265,315	503,092	558,596	1,062,048												
	UCAE, end of year	295,347	214,227	509,574	300,526	810,100	640,405	1,450,505												
	IBNR, end of year	-	-	-	2,365	2,365	67,945	70,310												
	Ratio: excess (deficiency)	1.74%		8.06%		43.27%														
2012	Paid during year	83,820	50,693	134,513	77,639	212,152	302,781	514,933	523,539	1,038,472										
	UCAE, end of year	247,207	161,614	408,821	257,595	666,416	428,924	1,095,340	645,918	1,741,258										
	IBNR, end of year	-	-	-	-	-	4,023	4,023	78,759	82,782										
	Ratio: excess (deficiency)	(1.27%)		5.50%		40.41%		(6.15%)												
2013	Paid during year	91,984	37,614	129,598	57,095	186,693	148,236	334,929	338,425	673,354	603,514	1,276,868								
	UCAE, end of year	281,436	151,608	433,044	249,243	682,287	414,066	1,096,353	477,954	1,574,307	768,396	2,342,703								
	IBNR, end of year	-	-	-	-	-	-	-	10,023	10,023	80,193	90,216								
	Ratio: excess (deficiency)	(11.94%)		(8.14%)		31.68%		(27.97%)		(23.77%)										
2014	Paid during year	55,816	26,701	82,517	57,206	139,723	109,272	248,995	156,030	405,025	380,436	785,461	517,167	1,302,628						
	UCAE, end of year	207,549	118,184	325,733	186,061	511,794	321,385	833,179	360,597	1,193,776	511,862	1,705,638	588,623	2,294,261						
	IBNR, end of year	-	-	-	-	-	-	-	-	-	18,964	18,964	74,986	93,950						
	Ratio: excess (deficiency)	(10.41%)		(4.26%)		33.01%		(27.04%)		(24.57%)		(3.17%)								
2015	Paid during year	34,215	26,722	60,937	34,288	95,225	97,565	192,790	86,199	278,989	120,032	399,021	264,419	663,440	531,159	1,194,599				
	UCAE, end of year	125,975	67,710	193,685	129,182	322,867	214,152	537,019	273,122	810,141	410,403	1,220,544	364,206	1,584,750	634,512	2,219,262				
	IBNR, end of year	-	-	-	(8,364)	(8,364)	(6,556)	(14,920)	(12,663)	(27,783)	(9,377)	(37,160)	18,167	(18,993)	120,092	101,099				
	Ratio: excess (deficiency)	(6.41%)		1.12%		37.41%		(19.26%)		(17.31%)		2.67%		6.66%						
2016	Paid during year	18,135	43,736	61,871	19,519	81,390	34,653	116,043	42,882	158,925	64,460	223,385	98,466	321,851	302,986	624,837	586,956	1,211,793		
	UCAE, end of year	109,378	36,557	145,935	67,458	213,393	154,673	368,036	230,081	598,147	331,933	930,080	298,962	1,229,042	377,645	1,606,687	665,402	2,272,089		
	IBNR, end of year	-	-	-	-	-	(8,759)	(8,759)	(8,985)	(17,744)	(13,373)	(31,117)	(15,243)	(46,360)	22,506	(23,854)	116,352	92,498		
	Ratio: excess (deficiency)	(6.54%)	1.93%	0.05%	59.98%	38.26%	-18.36%	(16.19%)	(16.55%)	(14.95%)	(4.11%)	5.18%	2.56%	9.22%	6.84%	4.66%				
2017	Paid during year	15,392	76,502	91,894	14,788	106,682	28,060	134,742	37,860	172,602	47,534	220,136	65,457	285,593	107,318	392,911	302,986	695,897	789,428	1,485,325
	UCAE, end of year	29,646	25,435	55,081	48,839	103,920	69,944	173,864	155,487	329,351	264,130	593,481	226,763	820,244	283,314	1,103,558	377,645	1,481,203	832,854	2,314,057
	IBNR, end of year	-	-	-	-	-	-	-	(10,367)	(10,367)	(10,668)	(21,063)	(13,167)	(34,220)	(16,683)	(50,903)	22,506	(28,397)	133,933	105,536
	Ratio: excess (deficiency)	(1.10%)	(9.53)%	(0.03%)	60.25%	38.38%	(11.6%)	(12.85%)	(11.29%	(10.08%)	(2.04%)	9.56%	3.27%	13.87%	10.29%	10.77%	10.06%	9.13%		

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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 $1,865,000 and $37,291,000 (2016 - $1,919,000 and $38,388,000).

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

- (i) Property and allied perils 80%:20% (2016 – 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 (2016 – 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 (2016 – US$22,000,000) for any one event.

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

	2017 $'000	2016 $'000
Property	1,936,126	715,955
Motor	41,163	61,893
Marine	977	3,281
Liability	(1,292)	18,419
Pecuniary loss	(1,219)	(2,588)
Personal accident	(1,857)	1,458
	1,973,898	798,418

(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.

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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

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(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

	2017 $'000	2016 $'000
Cash and short term investments	823,285	737,876
Investments	4,190,370	4,551,685
Due from agents, brokers & policyholders	842,749	778,363
Recoverable from reinsurers and coinsurers	1,691,462	551,452
Other receivables	21,723	7,488
Due from group companies	91,076	35,753
	7,660,665	6,662,617

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 $72,017,000 (2016 - $72,784,000) 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:

	2017 $'000	2016 $'000
31 to 60 days	34,209	37,651
More than 60 days	37,808	35,133
	72,017	72,784

Amounts due from agents, brokers & policyholders of $385,000 (2016 - $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:

	2017 $'000	2016 $'000
At start and end of year	385	385

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:

	2017 $'000	2016 $'000
Government of Jamaica	2,501,711	2,367,024
Bank of Jamaica	222,421	880,464
Corporate	2,137,588	1,813,653
	4,861,720	5,061,141

(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 marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Optimising cash returns on investment; and

(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.

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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
		2017		
Due to reinsurers	-	229,386	-	229,386
Claims outstanding	4,043,559	-	-	4,043,559
Other payables	116,679	15,528	86,733	218,940
	4,160,238	244,914	86,733	4,491,885
		2016		
Due to reinsurers	14,177	221,401	-	235,578
Claims outstanding	2,859,411	-	-	2,859,411
Other payables	19,105	107,700	61,462	188,267
	2,892,693	329,101	61,462	3,283,256

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 monitors price movement of financial assets monthly 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

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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
			2017	
Assets				
Cash & short term investments	-	63,973	71,041	135,014
Investments	-	-	885,254	885,254
Due from agents, brokers & policyholders	416	6,630	136,241	143,287
Recoverable from reinsurers and coinsurers	360	883,945	1,227,126	2,111,431
Deferred policy acquisition costs	39	3,235	66,275	69,549
Due from group companies	-	6,157	-	6,157
Total financial assets	815	963,940	2,385,937	3,350,692
Liabilities				
Due to reinsurers	(313)	(971)	(133,104)	(134,388)
Insurance reserves	(505)	(993,997)	(1,470,910)	(2,465,412)
Total financial liabilities	(818)	(994,968)	(1,604,014)	(2,599,800)
Net financial position	(3)	(31,028)	781,923	750,892
			2016	
Assets				
Cash & short term investments	-	71,977	288,247	360,224
Investments	-	-	1,179,290	1,179,290
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

GK General Insurance Company Limited

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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 at year end. 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 2% appreciation and a 4% depreciation (2016 – 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 2017	Effect on Profit before Taxation 2017 $'000	% Change in Currency Rate 2016	Effect on Profit before Taxation 2016 $'000
US$ (J$ Appreciation)	2%	(15,638)	1%	(13,263)
US$ (J$ Depreciation)	4%	31,277	6%	79,576
EC$ (J$ Appreciation)	2%	621	1%	(400)
EC$ (J$ Depreciation)	4%	(1,241)	6%	2,399

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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
				2017			
Financial Assets							
Cash & short term investments	597,212	178,549	-	-	47,523	150	823,434
Investments	585,851	886,387	1,048,187	919,745	750,200	126,556	4,316,926
Due from group companies	-	-	-	-	-	91,076	91,076
Other receivables	-	-	-	-	-	50,380	50,380
Total financial assets	1,183,063	1,064,936	1,048,187	919,745	797,723	268,162	5,281,816
Financial Liabilities							
Other payables	-	-	-	-	-	(218,940)	(218,940)
Due from group companies	-	-	-	-	-	(3,476)	(3,476)
Total financial liabilities	-	-	-	-	-	(222,416)	(222,416)
Total interest repricing gap	1,183,063	1,064,936	1,048,187	919,745	797,723	45,746	5,059,400

GK General Insurance Company Limited

Notes to the Financial Statements

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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
				2016			
Financial Assets							
Cash & short term investments	579,606	109,447	-	-	48,823	152	738,028
Investments	648,668	1,304,706	1,662,761	248,235	687,314	20,930	4,572,614
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 liabilities	-	-	-	-	-	(188,267)	(188,267)
Total interest repricing gap	1,228,274	1,414,153	1,662,761	248,235	736,137	(97,977)	5,191,583

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 2017 JMD / USD	Effect on Profit before Taxation 2017 $'000	Effect on Other Components of Equity 2017 $'000	Change in basis points 2016 JMD / USD	Effect on Profit before Taxation 2016 $'000	Effect on Other Components of Equity 2016 $'000
-100/-50	(7,294)	21,046	-100/-50	(10,942)	40,365
+100/+50	7,294	(17,520)	+100/+100	10,942	(37,615)

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Notes to the Financial Statements
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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 2017. This information is required to be included in the company's annual returns filed with the Financial Services Commission (FSC).

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.

The MCT percentages for the company for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
Actual MCT percentage	261%	270%
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 8 and 9).

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 21).

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.

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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
		2017		
Available-for-sale securities:				
Quoted equities	126,556	-	-	126,556
Government of Jamaica securities		2,501,711	-	2,501,711
Bank of Jamaica securities		222,421	-	222,421
Corporate bonds		708,002	-	708,002
Reverse repurchase agreements		758,922	-	758,922
Certificate of deposits		670,664	-	670,664
	126,556	4,861,720	-	4,988,276
Available-for-sale securities:		**2016**		
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
	20,930	5,061,141	-	5,082,071

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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.

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 19.

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 Deposits

	2017 $'000	2016 $'000
Cash at bank and in hand	104,561	179,748
Short term investments (Note 9)	671,350	509,457
Cash and cash equivalents	775,911	689,205
Other deposits	47,523	48,823
	823,434	738,028

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 $3,149,082 (2016 – $1,431,000). Other deposit represents EC$1,030,000 which have been pledged with the regulator in the Commonwealth of Dominica.

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

	2017 %	2016 %
Jamaican dollar denominated	4.96%	5.48
United States dollar denominated	1.47%	1.70

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9. Available-for-Sale Financial Assets

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

	Years to Maturity					
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total 2017	Total 2016
	$'000	$'000	$'000	$'000	$'000	$'000
Debt securities, at fair value -						
Issued by:						
Government of Jamaica	559,433	924,614	691,700	325,964	2,501,711	2,367,024
Bank of Jamaica	222,421	-	-	-	222,421	880,464
Corporate-						
Bonds	309,262	308,532	90,208	-	708,002	286,466
Reverse repurchase agreements	758,922	-	-	-	758,922	762,334
Certificate of deposits	670,664	-	-	-	670,664	764,853
	2,568,225	1,233,146	781,908	325,964	4,861,720	5,061,141
Short term investments (Note 8)					(671,350)	(509,457)
					4,190,370	4,551,684
Quoted equity securities, at fair value					124,736	19,890
Preference shares					1,820	1,040
					4,316,926	4,572,614

Investments include interest receivable of $57,724,978 (2016 – $50,847,000).

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 $45,000,000 has 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$512,000; J$63,592,000 (2016 – US$500,000; J$64,796,000) which have been pledged with the regulator in Turks and Caicos.

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10. Due from Agents, Brokers and Policyholders

	2017 $'000	2016 $'000
Insurance receivables –		
Agents and brokers	542,546	673,637
Policyholders	300,203	104,726
	842,749	778,363

11. Recoverable from Reinsurers and Coinsurers

	2017 $'000	2016 $'000
Claims recoverable from reinsurers and coinsurers	67,496	56,628
Reinsurers' portion of claims outstanding (Note 16)	1,623,966	494,824
Reinsurers' portion of unearned premiums (Note 16)	999,059	1,060,901
	2,690,521	1,612,353

12. Other Receivables

	2017 $'000	2016 $'000
Staff loans	2,056	2,046
Prepayments	28,657	25,967
Other	19,667	5,442
	50,380	33,455

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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:

	2017 $'000	2016 $'000
Premiums receivable	595	351

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

	2017 $'000	2016 $'000
Cash and short term investments –		
Fellow subsidiaries	21,740	101,835
Ultimate parent company	-	468
	21,740	102,303
Investments –		
Fellow subsidiaries	71,863	51,442
Ultimate parent company	184,166	184,686
	256,029	236,128
Due from agents, brokers and policyholders –		
Fellow subsidiaries	64,373	61,784
Ultimate parent company	846	3,195
	65,219	64,979
Due from group companies -		
Fellow subsidiaries	84,557	31,259
Ultimate parent company	6,519	4,494
	91,076	35,753
Due to group companies -		
Fellow subsidiaries	401	-
Ultimate parent company	3,075	-
	3,476	-
Other payables – Fellow subsidiary	73,103	88,484
Claims outstanding (gross) -		
Fellow subsidiaries	67,852	116,138
Ultimate parent company	15,048	21,715
	82,900	137,853

GK General Insurance Company Limited

13. Related Party Transactions and Balances (Continued)

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

	2017 $'000	2016 $'000
Staff costs –		
Wages and salaries	45,128	40,316
Statutory contributions	4,395	4,436
Directors' emoluments -		
Fees	2,916	3,276
Management remuneration (included in staff costs above)	21,976	22,140
Gross premiums written	1,812	2,836
Claims expense	142	1,958

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13. Related Party Transactions and Balances (Continued)

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

	2017 $'000	2016 $'000
Gross premiums written –		
Fellow subsidiaries	323,576	259,104
Parent company	370	443
Ultimate parent company	78,959	77,543
	402,905	337,090
Reinsurance ceded – Fellow subsidiaries	95,913	84,502
Commission income – Fellow subsidiaries	13,704	11,242
Commission expense – Fellow subsidiaries	117,303	124,622
Claims expense (gross) –		
Fellow subsidiaries	(38,315)	29,444
Ultimate parent company	1,378	14,784
	(36,937)	44,228
Administration expenses –		
Parent company	74,148	71,819
Fellow subsidiaries	5,289	1,724
	79,437	73,543
Other operating expenses –		
Allocation of central office expenses paid to parent company	81,268	165,065
Interest earned -		
Fellow subsidiaries	3,268	3,888
Ultimate parent company	13,725	15,388
	16,993	19,276
Management fee income	18,056	11,729
Royalty expense – Fellow subsidiary	48,601	45,699

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14. Property, Plant and Equipment

	Freehold Land and Buildings $'000	Leasehold Improvements $'000	Furniture, Fixtures and Equipment $'000	Motor Vehicles $'000	Total $'000
			2017		
At Cost or Valuation -					
At 1 January 2017	381,000	49,173	136,863	48,218	615,254
Additions	1,452	299,965	6,702	11,500	319,619
Disposals	-	(1,853)	(72)	(17,027)	(18,952)
At 31 December 2017	382,452	347,285	143,493	42,691	915,921
Depreciation -					
At 1 January 2017	-	25,503	110,112	26,144	161,759
Charge for the year	4,935	7,471	10,397	8,561	31,364
On disposals		(1,810)	(50)	(14,707)	(16,567)
At 31 December 2017	4,935	31,164	120,459	19,998	176,556
Net Book Value -					
31 December 2017	377,517	316,121	23,034	22,693	739,365

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14. Property, Plant and Equipment (Continued)

	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

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 $66,476,000 (2016 – $65,024,000) with accumulated depreciation of $18,652,000 (2016 – $17,544,000).

The additions to leasehold improvements relate to cost incurred on leased property. The property is leased y a fellow subsidiary, GK Investments Limited. On 1 October 2017, through a deed of assignment, the interest in the lease property was assigned to the Company.

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15. Intangible Assets

	Policy Contracts $'000	Computer Software $'000	Total $'000
		2017	
At Cost -			
At 1 January 2017	589,088	42,774	631,862
Additions	-	57,030	57,030
At 31 December 2017	589,088	99,804	688,892
Amortisation -			
At 1 January 2017	431,997	28,493	460,490
Amortisation charge	39,272	5,576	44,848
At 31 December 2017	471,269	34,069	505,338
Net Book Value -			
31 December 2017	117,819	65,735	183,554
		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

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 13.86%, 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 7.5%.

16. Insurance Reserves

	2017 $'000	2016 $'000
Gross –		
Claims outstanding	4,043,559	2,859,411
Unearned premiums	2,310,180	2,233,459
Unearned commission	197,300	199,404
	6,551,039	5,292,274
Reinsurance ceded –		
Claims outstanding (Note 11)	1,623,966	494,824
Unearned premiums (Note 11)	999,059	1,060,901
	2,623,025	1,555,725
Net –		
Claims outstanding	2,419,593	2,364,587
Unearned premiums	1,311,121	1,172,558
Unearned commission	197,300	199,404
	3,928,014	3,736,549

An actuarial valuation was performed to value the policy and claims liabilities of the company as at 31 December 2017 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.

16. 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 22 March 2018 the actuary found that the amount of policy and claims liabilities represented in the statement of financial position at 31 December 2017 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:

	2017 $'000	2016 $'000
Net reserves for claims outstanding at beginning of year –		
Gross reserves for claims outstanding	2,859,411	2,553,449
Reinsurance ceded	(494,824)	(233,088)
	2,364,587	2,320,361
Movement during the year –		
Claims incurred, including IBNR	1,540,331	1,256,019
Claims paid	(1,485,325)	(1,211,793)
	55,006	44,226
Net reserves for claims outstanding at end of year	2,419,593	2,364,587
Reinsurance ceded	1,623,966	494,824
Gross reserves for claims outstanding at end of year	4,043,559	2,859,411

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.

Catastrophic Events

There were two catastrophic events during the year that affected the company's results. Hurricane Irma, a category 5 hurricane, made landfall on the Turks and Caicos Islands on September 7, 2017. The Hurricane resulted in Gross losses incurred of $862,072,000 and Net losses incurred of $85,500,000. The statement of financial position at December 31, 2017 contains gross reserves of $499,546,000 and Net reserves of $33,853,000.

Hurricane Maria, a category 5 Hurricane, made landfall in Dominica on September 18, 2017. The Hurricane resulted in Gross losses incurred of $1,225,193,000 and Net losses incurred of $128,985,000. The statement of financial position at December 31, 2107 contains gross reserves of $951,106,000 and Net reserves of $77,689,000.

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17. Other Payables

	2017 $'000	2016 $'000
Accruals	65,800	102,093
Other	153,140	86,174
	218,940	188,267

18. 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:

	2017 $'000	2016 $'000
Deferred income tax assets	(137,368)	(120,781)
Deferred income tax liabilities	144,100	141,917
At end of year	6,732	21,136

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

	2017 $'000	2016 $'000
At beginning of year	21,136	17,281
Tax recognised in profit or loss (Note 25)	(31,829)	(12,146)
Tax recognised in other comprehensive income	17,425	16,001
At end of year	6,732	21,136

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

	2017		
	Before tax $'000	Tax charge $'000	After tax $'000
Item that may be reclassified to profit or loss:			
Fair value gains on available-for-sale investments	66,018	(22,006)	44,012
Item that will not be reclassified to profit or loss:			
Re-measurement of post-employment benefit obligations	(13,743)	4,581	(9,162)
	52,275	(17,425)	34,850

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18. Deferred Income Taxes (Continued)

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

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

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

Deferred tax assets	Employment benefits obligation	Accelerated depreciation	Other	Total
	$'000	$'000	$'000	$'000
At 1 January 2016	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
Recognised in profit or loss	12,284	391	(669)	12,006
Recognised in other comprehensive income	4,581	-	-	4,581
At 31 December 2017	118,299	15,969	3,100	137,368

Deferred tax liabilities	Revaluation of buildings	Interest receivable	Foreign exchange	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 January 2016	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
Recognised in profit or loss	-	2,293	(22,116)	-	(19,823)
Recognised in other comprehensive income	-	-	-	22,006	22,006
At 31 December 2017	96,397	19,242	764	27,697	144,100

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18. Deferred Income Taxes (Continued)

These balances include the following:

	2017 $'000	2016 $'000
Deferred tax liabilities to be settled after more than 12 months	96,397	96,397
Deferred tax assets to be recovered after more than 12 months	132,406	114,256

19. 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 $16,047,000 (2016 - $15,468,000).

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% (2016 – 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 $40,000 (2016 - $41,000).

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 post-employment benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

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19. 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:

	2017 $'000	2016 $'000
Present value of unfunded obligations	354,897	304,302

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

	2017 $'000	2016 $'000
Post-employment obligations	(13,743)	(10,082)

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

	2017 $'000	2016 $'000
Balance at beginning of year	304,302	263,281
Current service cost	15,980	15,762
Past service cost	(1,338)	(2,499)
Interest cost	27,178	22,198
	41,820	35,461
Remeasurements:		
Losses from change in financial assumptions	12,907	15,680
Losses from change in demographic assumptions	9,193	7,638
Experience losses	(8,357)	(13,236)
	13,743	10,082
Benefits paid	(4,968)	(4,522)
Balance at end of year	354,897	304,302

The amounts recognised in the income statement are as follows:

	2017 $'000	2016 $'000
Current service cost	15,980	15,762
Interest cost	(1,338)	(2,499)
Past service cost	27,178	22,198
Total, included in staff costs (Note 24)	41,820	35,461

The total charge was included in administration expenses.

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19. 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:

	2017 $'000	2016 $'000
Gratuity Plan	50,849	40,731
Group Life Plan	73,289	60,722
Insured Group Health	120,961	111,923
Self Insured Health Plan	104,246	85,658
Supplementary Pension Plan	5,552	5,268
Liability in the statement of financial position	354,897	304,302

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%	35,769	(46,111)
Medical inflation rate	1%	(46,318)	36,492

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19. 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 2017 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 most recent triennial funding valuation was completed as at 31 December 2016.

19. 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	8.6
Group Life Plan	15.4
Insured Group Health	20.8
Self Insured Health Plan	16.5
Superannuation plan	8.3

20. Share Capital

	2017 $'000	2016 $'000
Authorised, issued and fully paid -		
862,064,000 Ordinary shares at no par value	862,064	862,064
3,131,900 (2016- 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.

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21. Capital and Fair Value Reserves

	2017 $'000	2016 $'000
Realised gain on sale of investments	824	824
Unrealised gains on the revaluation of available-for-sale investments	83,615	17,597
Deferred tax	(27,697)	(5,691)
Unrealised surplus on the revaluation of property, plant and equipment	377,602	377,602
Deferred tax	(96,397)	(96,397)
	337,947	293,935

22. Other Income

	2017 $'000	2016 $'000
Dividend income	1,643	818
Gain on the sale of investments	1,628	8,637
Interest earned – available for sale securities	300,049	312,019
Gain on disposal of property, plant and equipment	8,553	3,181
Miscellaneous income	76,732	76,767
Net foreign exchange (losses)/gains	(26,152)	113,927
Rental income	60,987	-
	423,440	505,349

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23. Expenses by Nature

Total underwriting, administration and other operating expenses:

	2017 $'000	2016 $'000
Advertising and public relations	33,734	35,113
Allocation of central office expenses paid to parent company	84,205	165,065
Amortisation of intangible assets (Note 15)	44,848	42,841
Asset tax	11,816	11,811
Auditor's remuneration	5,355	5,121
Bad debt expense	472	3,383
Bank charges	17,591	16,747
Data processing	105,855	87,752
Depreciation (Note 14)	31,364	39,212
Directors' fees	2,055	2,648
Occupancy - rent, utilities, insurance, security	64,865	50,677
Office expenses	27,325	29,944
Professional fees	9,153	6,110
Registration fees and stamp duty	21,945	22,075
Repairs and maintenance	19,000	8,775
Royalty expense	48,601	45,699
Staff costs (Note 24)	567,728	581,495
Strategic planning expenses	-	182
Underwriting expenses	43,664	39,128
	1,139,576	1,193,778

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24. Staff Costs

	2017 $'000	2016 $'000
Wages and salaries	364,354	396,764
Statutory contributions	44,419	44,121
Pension – defined contribution (Note 19)	16,047	15,468
Other post-employment obligations (Note 19)	41,820	35,461
Redundancy costs	-	495
Other	101,088	89,186
	567,728	581,495

The number of persons employed full-time by the company at year-end was 142 (2016 – 130).

25. Taxation

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

	2017 $'000	2016 $'000
Current taxation	78,195	159,303
Deferred taxation (Note 18)	(31,829)	(12,146)
	46,366	147,157

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

	2017 $'000	2016 $'000
Profit before taxation	200,729	452,002
Tax calculated at a tax rate of 33⅓%	66,910	150,667
Adjusted for the effects of –		
Expense not deductible for tax purposes	4,655	4,373
Income not subject to tax	(19,374)	(8,445)
Dividend paid on preference shares	(14,911)	(15,200)
Amortisation of Dyoll portfolio	13,091	13,091
Other	(4,005)	2,671
	46,366	147,157

26. Contingent Liabilities

The company is involved in certain legal proceedings incidental to the normal conduct of business. Management believes the reserves made in the accounts represent best estimate of the outcome of these proceedings.