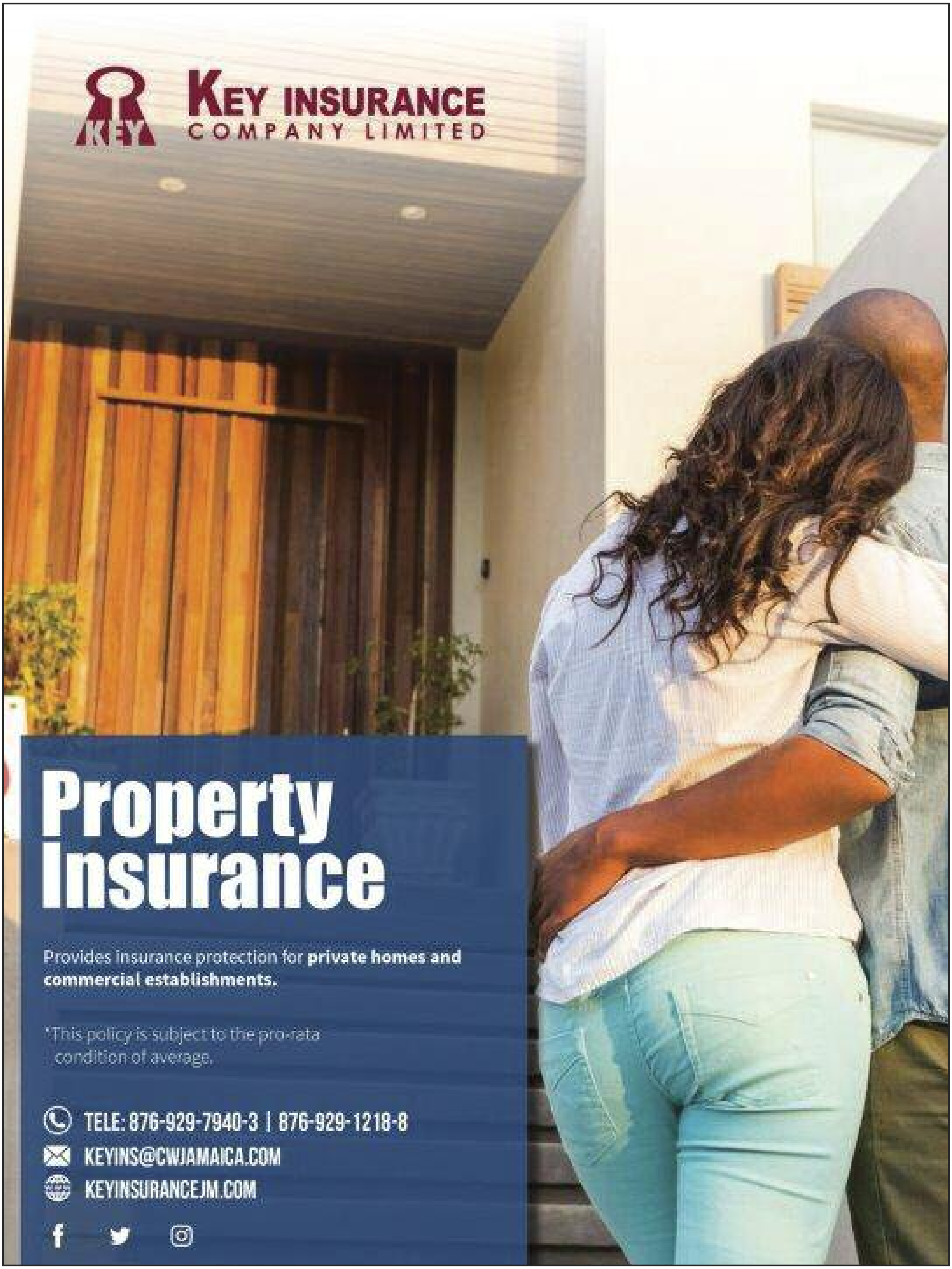
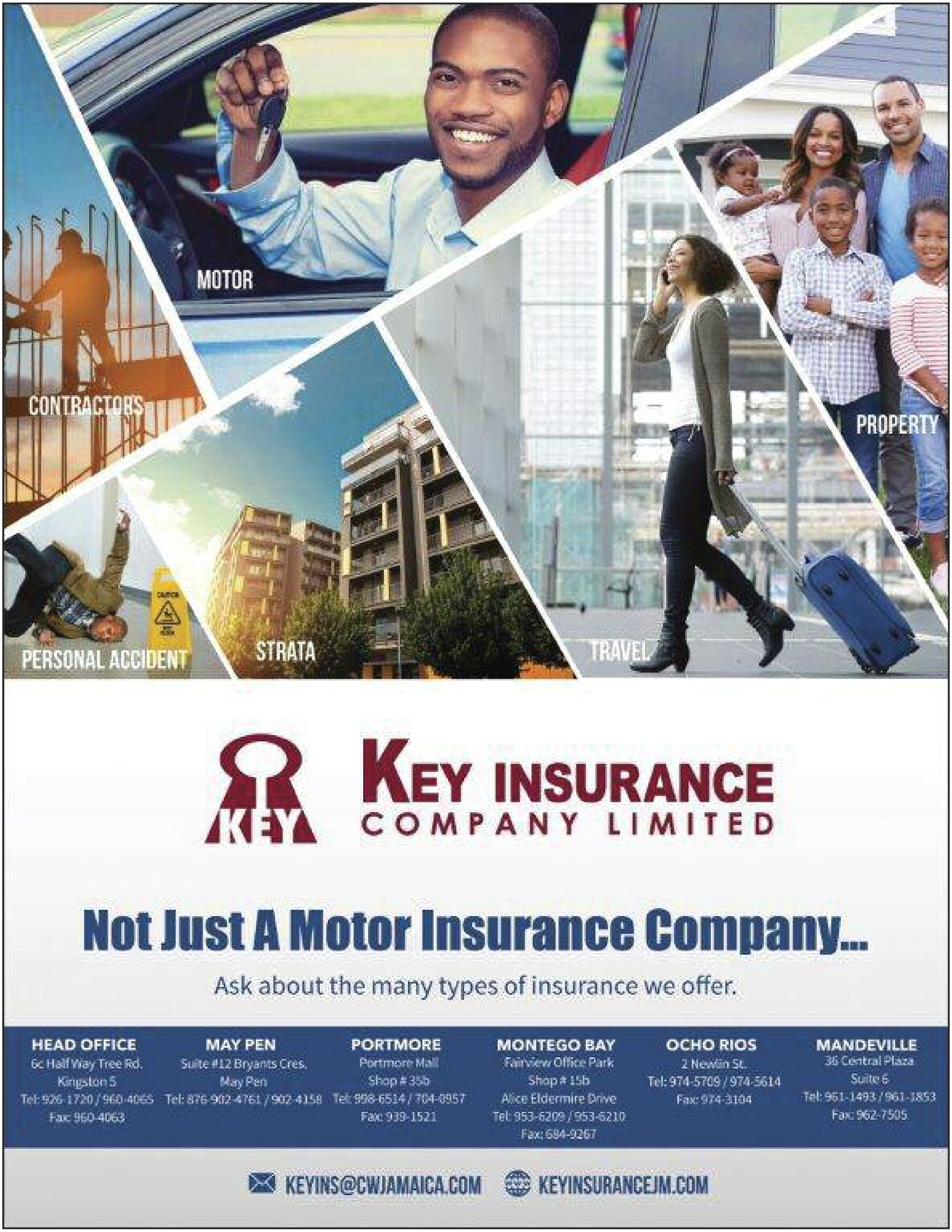
2017 ANNUAL REPORT

Driving Growth

OUR GOAL YOUR FUTURE

KEY INSURANCE COMPANY LIMITED


KEY INSURANCE
COMPANY LIMITED
Property
Insurance
Provides insurance protection for private homes and commercial establishments.
*This policy is subject to the pro-rata condition of average.
TELE: 876-929-7940-3 | 876-929-1218-8
KEYINS@CWJAMAICA.COM
KEYINSURANCEJM.COM


MOTOR
CONTRACTORS
PROPERTY
PERSONAL ACCIDENT
STRATA
TRAVEL
KEY
KEY INSURANCE
COMPANY LIMITED
Not Just A Motor Insurance Company...
Ask about the many types of insurance we offer.
HEAD OFFICE
6c Half Way Tree Rd.
Kingston 5
Tel: 926-1720 / 960-4065
Fax: 960-4063
MAY PEN
Suite #12 Bryants Cres.
May Pen
Tel: 876-902-4761 / 902-4158
PORTMORE
Portmore Mall
Shop # 35b
Tel: 998-6514 / 704-0957
Fax: 939-1521
MONTEGO BAY
Fairview Office Park
Shop # 15b
Alice Eldermire Drive
Tel: 953-6209 / 953-6210
Fax: 684-9267
OCHO RIOS
2 Newlin St.
Tel: 974-5709 / 974-5614
Fax: 974-3104
MANDEVILLE
36 Central Plaza
Suite 6
Tel: 961-1493 / 961-1853
Fax: 962-7505
KEYINS@CWJAMAICA.COM
KEYINSURANCEJM.COM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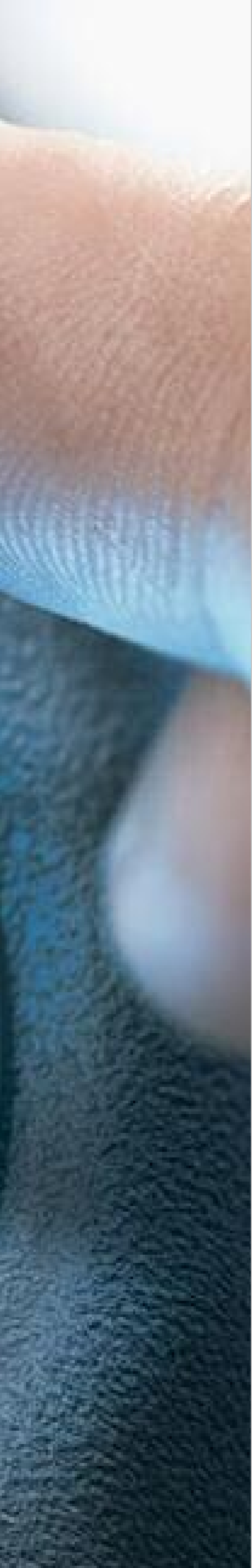


Our Vision

To satisfy our customers by providing the best possible insurance protection of assets in Jamaica.

Our Mission

Key Insurance Company Limited is committed to protecting its Policyholders by providing quality products, excellent service and security of assets, through constant product and technological improvement by a highly motivated and competent staff.

KEY INSURANCE
COMPANY LIMITED

Personal Accident Insurance

Provides compensation in the event of **disablement, loss of limbs, loss of sight by accident**, or in **the event of death.**

TELE: 876-929-7940-3 | 876-929-1218-8 KEYINS@CWJAMAICA.COM KEYINSURANCEJM.COM

Contents

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of KEY INSURANCE COMPANY LIMITED (hereinafter referred to as the Company) will be held at The Valencia Suites, Spanish Court Hotel, 16 Worthington Avenue, Kingston 5, on Tuesday, 26 June 2018 at 4:00 p.m. to pass the following resolutions for the following purposes:

1. To receive the report of the Board of Directors and the Audited Financial Statements for the year ended 31 December 2017 circulated herewith.

   To consider and (if thought fit) pass the following resolution: -

   RESOLUTION NO. 1

   "THAT the Audited Financial Statements for the year ended 31 December 2017 and the reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To elect Directors

To consider and (if thought fit) pass the following resolutions: -

   "THAT the following Directors who retire by rotation in accordance with Section 97 of the Amended Articles of Association and who being eligible, offer themselves for reappointment be hereby reappointed en bloc."

   Natalia Gobin-Gunter

   Sandra Masterton

   Kala Abrahams

   Keith Collister

   Michael Fraser

   Kisha Anderson

   Dennis Brown

3. To appoint Auditors and authorize the Directors to fix the remuneration of the Auditors.

   To consider and (if thought fit) pass the following resolutions: -

   RESOLUTION NO. 3

   "THAT PricewaterhouseCoopers, Chartered Accountants, having signified their willingness to serve, continue in the office as Auditors of the Company pursuant to Section 154 of the Companies Act to hold office until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company."

4. To fix the fees of the Directors.

   To consider and (if thought fit) pass the following resolution: -

   RESOLUTION NO. 4

   "THAT the amount recognized in the Financial Statements of the Company for the year ended 31 December 2017 for fees of the Directors be and is hereby approved."

Dated the 30th day of April 2018

Treveen Little
Company Secretary
Key Insurance Company Limited

Corporate Data

BOARD OF DIRECTORS

Natalia Gobin-Gunter, BA, PAD
Chairman, Non-Executive Director

Sandra Masterton, FCIP
Managing Director

Kala Abrahams
Non-Executive Director

Keith Collister, MA (Econ) Cantab, MBA
Independent Non-Executive Director

Kisha Anderson, BSc, JP
Independent Non-Executive Director

Dennis Brown, MBA, FCCA, FCA
Independent Non-Executive Director

Michael Fraser, OD, JP, CLU
Mentor
Independent Non-Executive Director

CORPORATE SECRETARY

Treveen Little, BA, LLB, LLM, PAD

EXECUTIVE SENIOR MANAGEMENT TEAM

Patrick Reid
Systems Manager

Jacqueline Johnson, BSc, MSc, CIA, CISA, FCA, FCCA
Finance Director

Heather Bowie, FCII, CIP, MBA
Claims Operations Manager

Sophia Phillipps, BA, CIP
Underwriting Manager

Carlene Isaacs, BSc, Dip
Reinsurance Manager

Treveen Little, BA, LLB, LLM, PAD
Corporate Services Manager

COMMITTEES

Audit
(Statutory Committee)

Dennis Brown, (Chairman) MBA, FCCA, FCA,

Keith Collister, MA (Econ), Cantab, MBA

Sandra Masterton, FCIP

Alastair Macbeath, BA, ACC(A)

Vintoria Bernard, FCA, FCCA

Jacqueline Somers-King, FCCA, MBA

Loans and Investments

Keith Collister, (Chairman)
MA (Econ) Cantab, MBA

Natalia Gobin-Gunter, BA, PAD

Blossom Hanchard

Peter Thompson, MSc, CFA,

Sandra Masterton, FCIP

Compensation/Nominations/ Conduct Review Committee

Kisha Anderson, (Chairman) BSc, JP

Natalia Gobin-Gunter, BA, PAD

Michael Fraser OD, JP, CLU

Dennis Brown, MBA, FCCA, FCA

AUDITORS

PricewaterhouseCoopers
Scotiabank Centre, Duke Street
P.O. Box 372, Kingston

INTERNAL AUDITORS

Ernst & Young
8 Olivier Rd, Kingston 8

BANKERS

Sagicor Bank Jamaica Limited
17a Duke Street, Kingston

National Commercial Bank Jamaica Limited
1-7 Knutsford Boulevard, Kingston 5

REGISTERED OFFICE

6c Half Way Tree Road, Kingston

ATTORNEYS

Nunes Scholefield DeLeon
Attorneys-at-Law
6a Holborn Road, Kingston 5

Georgia Hamilton & Co.
Attorneys-at-Law
63 Molynes Road, Kingston 10

Kerry Ann Sewell
Attorney-at-Law
14b Musgrave Professional Suites
34 Lady Musgrave Road, Kingston 5

Nicholson Phillips
Attorneys-at-Law
22 Trafalgar Road, Kingston 10

Symone Mayhew
Attorney-at-Law
Unit 11 – 2 Seymour Avenue
Kingston 10

Abendana & Abendana
Attorneys-at-Law 3
2 Lady Musgrave Road, Kingston 5

Patterson Mair Hamilton
Attorneys-at-Law
Temple Court
85 Hope Road, Kingston 6

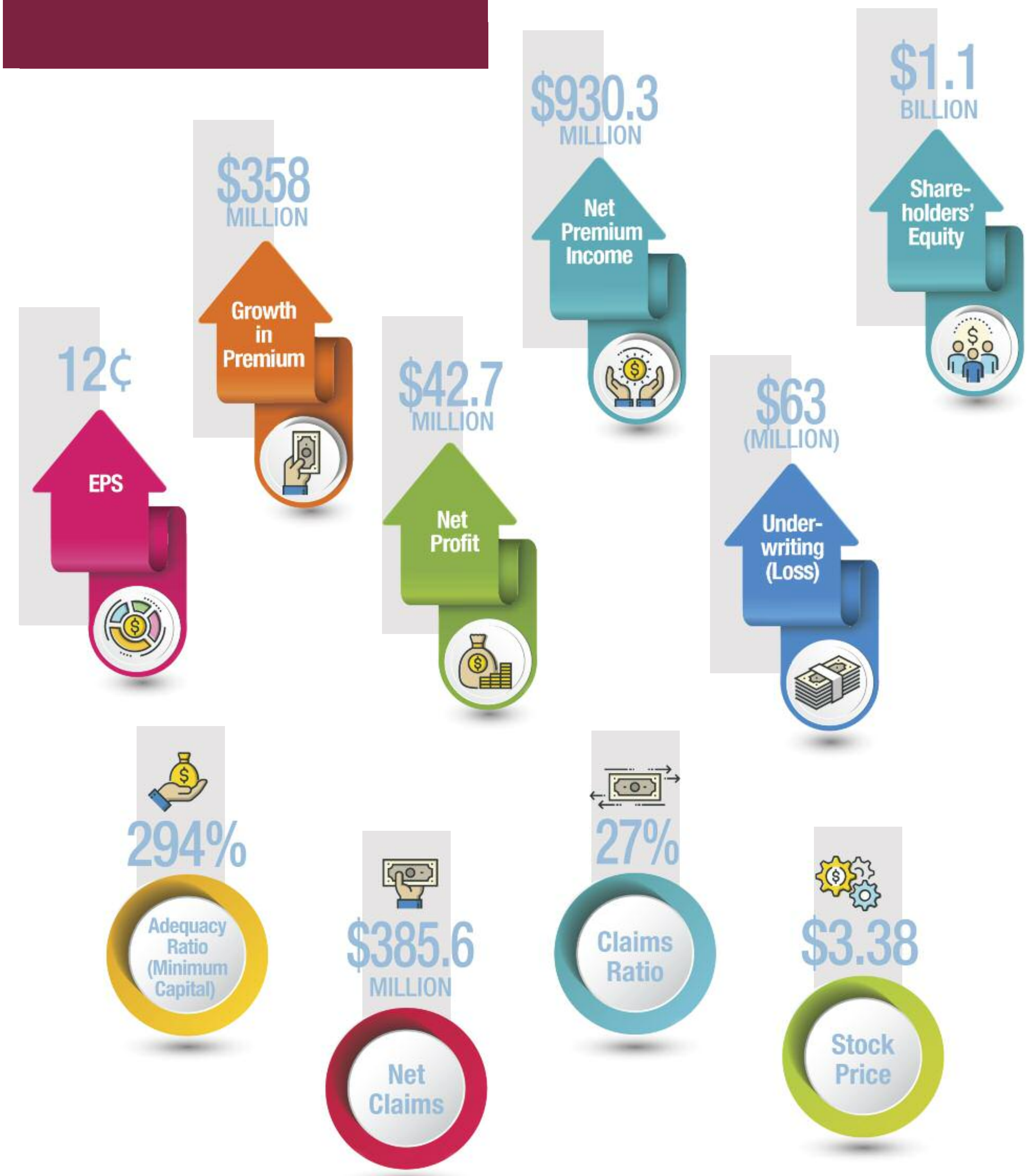
Hay Law
Attorneys-at-Law
41 Queen's Avenue
"Lynrock", Kingston 10

Bailey Terrelonge Allen
Attorneys-at-Law
2 Newlin Street,
Ocho Rios, St Ann

REGISTRAR

Jamaica Central Securities Depository Limited
40 Harbour Street, Kingston

KEY Highlights 2017



Chairman's Report

Natalia Gobin-Gunter

Key Insurance Company is pleased to report a positive performance for the year ended December 31, 2017. The Company enjoyed a net profit of $42.7 million for 2017, reversing the loss position of $42.2 million reported for the previous year.

The year 2017 boasted revenues of $1.4 billion, marking the second successive year in which the Company recorded revenues in excess of One Billion Dollars. This resulted in an overall 33 percent increase in gross premium written over our 2016 results (48 percent and 10 percent increase in motor and non-motor respectively).

The outturn should be juxtaposed against the general softness in the non-motor premium rates experienced by the insurance industry in the early months of the year. Following major catastrophic losses both worldwide and within the region, rates escalated in the latter part of 2017, resulting in reinsurers and, by extension, Jamaican insurers increasing premiums after a few years of declining rates.

Our proficient Underwriting and Claims Team continue to exercise prudent Claims Management. We are also proud to report that the Company maintains a strong Minimum Capital Test (MCT) ratio of 294 percent, 44 percent in excess of the Financial Services Commission (FSC) requirement of 250 percent.

In a bid to grow our core business and garner larger profit for our shareholders, a strategic review of the Company was undertaken. Coming out of this review, it was recognized that certain necessary changes would have to be made to both our systems of operation and staff complement. The year 2017 marked a commitment to the creation of a leaner and more efficient operation. In keeping with the identified objectives, cost-cutting measures were implemented over the course of 2017, which we are pleased to report made an immediate positive impact on the Company's bottom line.

Key's Management and Staff, in conjunction with its Board of Directors and Board Committees, are invested in a profitability and growth agenda in 2018. The initiatives undertaken in 2017 are part of an ongoing series of assessments and changes, which will extend throughout 2018 and which, we believe, will result in continued growth and profitability.

Corporate Governance

2017 marked the second official year of Key Insurance Company's listing on the Junior Market of the Jamaica Stock Exchange (JSE). The year was also one of progress and transformation as the Company moved on a planned trajectory to drive growth for the future.

Corporate Governance provides an organized framework through which the Company establishes, manages and monitors its objectives, supported by a professional group of skilled personnel who form the Board of Directors, including the Mentor and supporting Committees.

Board of Directors

The Board of Directors undergird the structural pillars of the Company, astutely and proactively guiding its affairs and advancement, whilst meeting the appropriate interests of its shareholders and stakeholders. Their competency ranges from General Management, Accounting, Audit and Insurance to Marketing, Legal, Compliance and Governance.

The Board comprises, Natalia Gobin-Gunter, Sandra Masterton, Keith Collister, Michael Fraser, Kisha Anderson, Dennis Brown and Kala Abrahams, a good fusion of age and gender.

The Board meets regularly to discuss and preside over the operations of the Company at scheduled meetings and when necessary, additional meetings outside of the set timetable. Six bi-monthly meetings were convened in 2017.

Role of Mentor

As a recent entrant on the Junior Market, the Company's Mentor imparts his experience gained in senior executive roles and on a number of boards as both Director and Mentor. The Mentor serves as a bastion of Corporate Governance, assisting the Company as it begins to mature within the context of new regulatory guidelines.

Additionally, due to the fact that the Company had a Non-Independent Chairman, who was an Executive, it was very important to have an independent sounding-board for the Chairman. The Mentor also has to be an individual who could competently meet with the Independent Board of Directors to privately discuss matters of governance.

Corporate Governance Policy Review

At the Company's November 2017 Board meeting, the decision was taken that all policies will be reviewed for round robin approval. The Company's Corporate Governance Code now reflects a 10-year limit for Directors with the option to renew, and the age of retirement is set at 80 years with an option to extend. Board evaluations were done during the year and it was decided that an external consultant would conduct the evaluation every 7 years.

Regulatory Responsibilities

The Company remains in strict alignment with the Financial Services Commission (FSC) and maintains good relations with our regulators and shareholders.

Our shareholders are able to access the Company's website for quarterly and annual reports, stock price as well as information on Directors and Senior Executives.

Committees

The Board is supported by 3 Committees, which conduct detailed reviews of the respective portfolios under their purview.

- Audit - chaired by Dennis Brown with members - Keith Collister, Sandra Masterton, Jacqueline

Somers-King, Vintoria Bernard and Alastair Macbeath.

- Loans and Investments - chaired by Keith Collister with members - Natalia Gobin-Gunter, Blossom Hanchard, Peter Thompson and Sandra Masterton.
- Compensation, Nominations, Conduct Review - chaired by Kisha Anderson with members, Natalia Gobin-Gunter, Michael Fraser and Dennis Brown.

The Committees meet as often as required, except for the Audit Committee, which is convened on a monthly basis. An internal Loans and Investments Sub-Committee, authorized to make prompt decisions, meets when needed.

Executive Senior Management

The Executives have a wealth of academic training and extensive work experience in Insurance, Human Resources, Information Systems, Finance and Legal Management. Their expertise helps to facilitate the decision-making process.

They are readily accessible to the Directors of the Board, so as to ensure that directives are timely executed on matters of import to the Company and its clientele.

Independent Directors

Management stipulates that Independent Non-Executive Directors are to be persons who are not employed by the Company and are without affiliation therein. The Independent Director would not be a Director who:

- was employed to the Company within the last three years, at the time of appointment;
- possesses or possessed within the last three years, a material business relationship with the Company, whether directly or indirectly as a partner, shareholder, Director or Senior Executive of an entity that maintained that type of relationship with the Company;
- is the recipient of any revenue from the Company, excluding Directors' fees;
- maintains close familial or kinship connections with any of the Company's Advisers, Directors or Senior Executives.

The independent status of each Director is assessed annually to ensure suitability.

Board Development

The Company supports the on-going development of its Board of Directors in the execution of their responsibilities. In this regard, Company Secretary, Treveen Little, attended the Compliance Aid annual conference in Miami, Florida in April 2017.

Managing Director, Sandra Masterton, was in training for "Family owned Insurance Companies" in September 2017, at Hannover Re, in Germany, one of the largest reinsurance groups in the world. It transacts all lines of property, casualty, life and health reinsurance.

Team Members also participated in sponsored events by the Jamaica Stock Exchange (JSE) and the Financial Services Commission (FSC).

Training

Directors and Executive Senior Management

Directors and Senior Team Members undergo regular training to keep abreast of the changes in the industry in areas such as Security, Regulatory and Policy Developments, among others. This allows for greater operational efficiencies at all levels of the Company.

In 2017, training sessions were conducted by Company Managers and PricewaterhouseCoopers (PwC). Board and Audit Committee members attended a training session on "Information Security & Privacy" and "Cyber Security Governance" led by Patrick Reid, Systems Manager, on September 14, 2017.

Reinsurance Manager, Carlene Isaacs, facilitated training on the basic concepts in reinsurance - "Reinsurance 101", held on October 19, 2017 with Board and Audit Committee members in attendance.

On October 30, 2017, the Compensation Committee met with Senior Management and Branch Managers to discuss the Company's Strategic Growth and Efficiency agenda.

The Accounts Department keeps pace with cutting edge developments in the field and this year, PwC conducted an in-house training session on IFRS9, which was attended by the Finance Director and members of the Audit Committee. PwC also hosted public training on IFRS9 training, which was of benefit to all senior members of the Accounts Department.

Branch Managers and Senior Team Members completed year-long sales training with Think Grow Lead, a training and development company offering programmes to optimize sales performance, business leadership and staff engagement. Other training and education was also undertaken with the College of Insurance, Financial Services Commission and Jamaica Stock Exchange.

All Team Members were rigorously instructed on Compliance, Knowing your Employees, Insider Trading, Key Company Policies and an annual Anti-Money Laundering (AML) refresher class.

Sophia Phillipps, Underwriting Manager (left) and Treveen Little, Corporate Services Manager, (right) representing Key's Senior Management Executives who are all committed to the Company's Growth agenda.

Board & Committee Attendance

In accordance with regulatory requirements of the insurance industry and as a listed Company, the Board of Directors has maintained a consistent schedule of meetings.

During the year, all scheduled board meetings were attended by the majority of the Board of Directors likewise for the 3 Committees - Audit, Loans and Investments, and Compensation, Nominations, Conduct Review.

For the first time, we had 3 different categories of Directors namely, Executive, Non-Executive and Independent Non-Executive.

Board Meetings	6
Natalia Gobin-Gunter	6
Sandra Masterton	5
Kala Abrahams	6
Keith Collister	3
Michael Fraser	5
Kisha Anderson	6
Dennis Brown	6
Stephen Allen	2
Treveen Little	6

Audit Meetings	10
Vintoria Bernard	9
Dennis Brown	10
Alastair Macbeath	8
Keith Collister	10
Jacqueline Somers-King	7
Sandra Masterton	10
Stephen Allen*	2

**Stephen Allen retired June 14, 2017*

Compensation/Nominations/ Conduct Review Meetings	3
Kisha Anderson	3
Dennis Brown	3
Michael Fraser	3
Natalia Gobin-Gunter	3
Treveen Little	3

Conduct Review Meetings **	1
Keith Collister	1
Stephen Allen*	1
Natalia Gobin-Gunter	1

** meetings held prior to merger

Loans & Investments Meetings	4
Keith Collister	4
Peter Thompson	4
Heather Bowie (Invitee)	4
Blossom Hanchard	4
Natalia Gobin-Gunter	3
Sandra Masterton	1

Report of Directors

Pursuant to our fiduciary responsibilities, the Board of Directors, during the financial year under review, continued to provide professional oversight to the Company through the monitoring and assessment of performance targets, to ensure that our plans were achieved or where necessary, targets were reset.

The Board met regularly to review the performance of the Company, providing advice and guidance through consultation with Management, regarding the strategic and operational direction of the Company.

Financial Statements

After tactical planning and projections, Key Insurance Company completed another successful year, having generated net profit of $42.7 million. The Company has steadily built on its reputation as a respected entity in the insurance industry and now, in its second year of being listed on the Junior Market of the Jamaica Stock Exchange, is poised for further growth and expansion.

Annual General Meeting

Our Annual General Meeting is scheduled for Tuesday, June 26, 2018 at The Valencia Suites, Spanish Court Hotel, 16 Worthington Avenue, Kingston 5. We implore shareholders to join us for full participation once more.

Directors Retiring

At this upcoming meeting, all Directors will be retiring and are offering themselves for re-election: Natalia Gobin-Gunter, Sandra Masterton, Kala Abrahams, Keith Collister, Kisha Anderson, Dennis Brown and Michael Fraser.

Auditors

PricewaterhouseCoopers, the retiring auditors, have stated their readiness to continue in office and will do so in accordance with the provisions of Section 154 of the Companies Act. A resolution authorizing the Directors to fix the remuneration of the auditors will be presented at the Annual General Meeting.

Dividend

The Directors are not recommending the payment of a dividend at this time.

The Executive Management team and staff are integral to the performance and success of the Company and we wish to express our appreciation to them, as well as to all other stakeholders for their commitment and dedication to the success of the Company.

Profile of Board of Directors

Natalia Gobin-Gunter, BA, PAD

Chairman and Non-Executive Director

Natalia Gobin-Gunter has held the post of Chairman of the Board of Directors since March 2016. She has been a shareholder from 2015 and a member of the Board from 1990. She retired from active management within the Company as of October 2017 and now serves as a Non-Executive Director.

Her experience in the industry spans almost 25 years during which she has held many positions, including that of Deputy Managing Director until October 2017, Nominated Compliance Officer from 2011 to 2015 and previous to that, she was Director of Administration and Operations.

At present, Natalia sits as a Trustee of the Company's Pension Fund, in addition to several of the Company's Board related Committees, including the Loans and Investments Committee and Compensation, Nominations and Conduct Review Committee. In the past, she represented the Company at the Insurance Association of Jamaica (IAJ) on a number of committees and sub-committees - Human Resources, Fraud and Public Relations, to name a few.

She considers herself a lifelong student and recently attained the designation of Professional Director (PAD) to her portfolio of academic achievements.

Sandra Masterton, FCIP

Managing Director

Sandra Masterton was appointed Managing Director in August 2012, subsequent to serving as the Company's Deputy Managing Director. Her insurance career began post Hurricane Gilbert in 1988 when she returned from completing her insurance studies and joined the Claims Department as a Claims Associate. Since then, she has attained over 29 years of experience in the General Insurance industry.

In 1990, Sandra achieved the designation, Associate of the Insurance Institute of Canada (AIIC). In 1996, she continued her studies while working in the Claims Department of the Company and attained the designation, Fellow of the Insurance Institute of Canada (FIIC) in 1999. She has been a Fellow Chartered Insurance Professional of the Insurance Institute of Canada (FCIP) since 2000 and is a standing member of the Insurance Institute of Ontario.

Sandra serves on the Company's Audit and Loans and Investments Committees and also as Broker Liaison at the Insurance Association of Jamaica (IAJ).

Kisha Anderson, BSc, JP

Independent Non-Executive Director

Kisha Anderson serves as Chairman of the Compensation, Nomination and Conduct Review Committee. She began her tenure with JMMB Ltd. in 1996, and has since worked in several areas of the company's operations. Kisha is currently the Country Manager of JMMB's Jamaican-based subsidiaries: Jamaica Money Market Brokers (JMMB) Ltd., JMMB Merchant Bank Ltd., JMMB Insurance Brokers Ltd., JMMB Fund Managers Ltd. and JMMB Securities Ltd. (Jamaica).

She also sits as a Director on the Boards of JMMB Insurance Brokers Ltd., JMMB Fund Managers Ltd., JMMB Securities Ltd., JMMB Money Transfer Ltd., JMMB Ltd., JMMB Investments (T&T) and JMMB Securities (T&T).

Kisha has an in-depth knowledge and understanding of the financial sector through her extensive experience as a member of the JMMB team and through her participation in a range of professional development courses. She holds a degree in Environmental Sciences from the UWI, Mona. In November 2015, she completed and graduated from a 4-month Harvard Business School General Management Programme, where she gained invaluable knowledge and exposure to new paradigms and techniques to support her strategic and leadership capabilities.

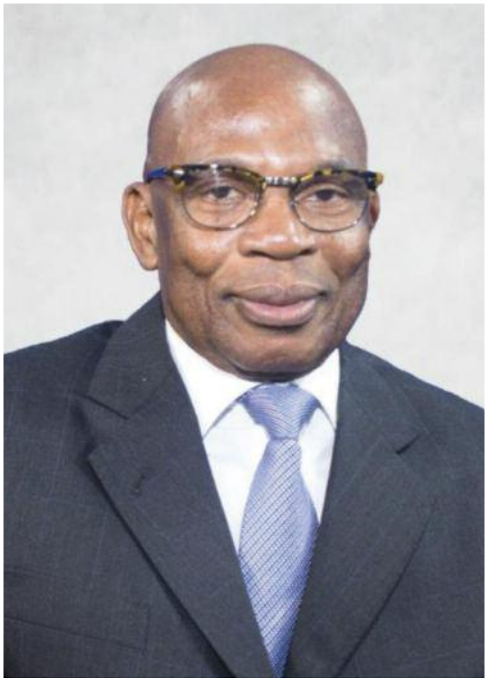
With her innovative ideas, solution-oriented work ethic and drive for excellence in performance, she continues to play a key role in leading her team's contribution towards the realization of the integrated financial services model for the JMMB Group in Jamaica. She is a Justice of the Peace for St. Andrew.

Kala Abrahams

Non-Executive Director

Kala Abrahams, previously held the position of Purchasing and Web Operations Manager with responsibility for all commodity items across the various locations. She joined the Company in 1997 and worked her way up the ranks in the capacity of Clerical Officer, Underwriting Clerk, Purchasing Officer and Management Trainee.

Kala studied at George Brown College in Toronto, Canada, prior to joining the Company. During the last quarter of the financial year, she relinquished her Executive position to pursue personal professional goals.



Dennis Brown, MBA, FCCA, FCA

Independent Non-Executive Director

Dennis Brown serves the Company in the capacity of Director and Audit Committee Chairman. He brings to the table his vast expertise gained over 34 years serving the firm PricewaterhouseCoopers (PwC) as a partner for 28 years with a wide range of portfolio responsibilities. As a partner at PwC, his portfolio included the overall planning and execution of audit strategies and he also served as client service partner on a number of engagements.

His extensive experience in accounting, audit, financial and risk management, and the development of operational procedures and policies, to name a few, led to him serving a number of local and international entities in various capacities. He has served as Chairman of the Accounting Standards Committee of the Institute of Chartered Accountants of Jamaica (ICAJ), as Director of Caribbean Corporate Governance Institute (CCGI), and a member of the Consultative Group appointed by the United Nations Conference on Trade and Development (UNCTAD). He was also lead partner on Indefinite Quality Contracts with USAID, the European Union (EU), the World Bank and IDB funded engagements.

His present undertakings include Director and Chair of the Audit and Finance Committee of Andrews Memorial Hospital, Treasurer of the ICAJ and member of the Implementation Oversight Committee for Corporate Governance of the Ministry of Finance.

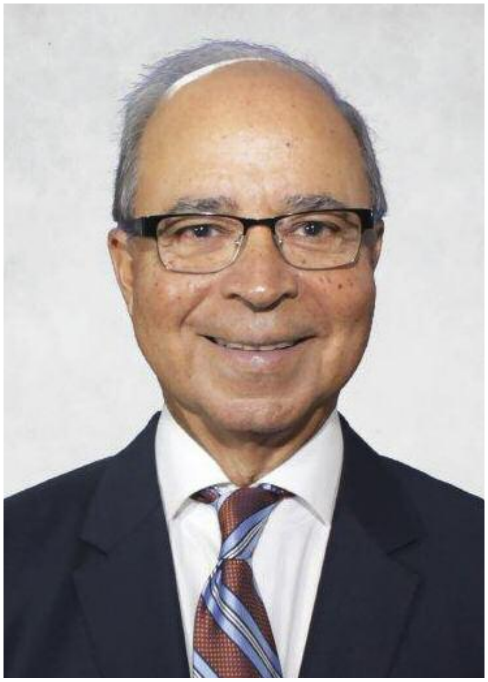
Keith Collister, MA (Econ) Cantab, MBA,

Independent Non-Executive Director

Keith Collister has been an Independent Non-Executive Director of the Company since August 2012. He is the Director for Special Projects in the Finance and Planning Division of the Sandals Group and Chairman of the Appliance Traders Limited Pension Fund. He is also a Director of the Jamaica Chamber of Commerce (JCC) and a member of the Private Sector Organization of Jamaica's (PSOJ) Economic Policy Committee.

Keith has previously acted as consultant to the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC). He is also a financial journalist who has contributed to various publications including the Jamaica Observer, the Daily Gleaner, Latin Trade, LatinFinance and the Financial Times' Banker Magazine.

He holds an MA in Economics from Cambridge University, a Diploma in Accounting and Finance from the London School of Economics and an MBA in International Banking and Finance from Birmingham Business School.



Michael Fraser, OD, JP, CLU

Mentor and Independent Non-Executive Director

Michael Fraser serves as Mentor to the Board supporting the Directors and the Company in the maintenance of strong Corporate Governance and Regulatory Compliance practices. He is a Chartered Life Underwriter (CLU) who has worked in the insurance industry in Jamaica for over 30 years.

Michael is a Director of Sagicor Insurance Brokers Limited and Sagicor X Fund. Previously, he was President and Chief Executive Officer of Sagicor Life of the Cayman Islands Limited, Deputy Chief Executive Officer and Chief Marketing Officer of Sagicor Life Jamaica Limited, and President and Chief Executive Officer of Island Life Insurance Company Limited. He is also a past President of the Life Underwriters' Association of Jamaica. In 1999, he was voted "Insurance Man of the Year" by the Association and was inducted into the Caribbean Insurance Hall of Fame in 2005.

Presently, he holds the position of Vice Chairman of the Jamaica Cancer Society and is Chairman of the Jamaica Medical Foundation.

Planned and
Sustained Growth are
KEY Driving Factors.

Managing Director's Report

The performance of the Insurance Industry is in large part impacted by the wider economy and as such we are cognizant of developments.

Some Highlights of Note

The fiscal operation of the Jamaican Government showed a surplus during the year, flowing from increased revenues and controlled spending levels, while interest rates fell to their lowest in more than 50 years on Government Treasury Bills.

The economy saw strong growth of 8 percent in tourism arrivals in 2017 over 2016 and 11 percent when compared to 2015. In addition, the Business Processing Outsourcing Industry (BPO) continued to expand and the mining sector saw increased production with the reopening of the Alpart alumina refinery.

Inflation for 2017 was 5.2 percent, compared to 1.7 percent in 2016. The outturn was due in part to higher international commodity prices and unfavourable weather conditions sustained by the agricultural sector.

The Jamaican dollar appreciated against the US dollar towards the end of 2017, as US dollar liquidity conditions improved compared to the start of the year. Since the beginning of 2018 to March, there has been moderate slippage of the Jamaican dollar to its US counterpart.

Subsequent to year end, the Government outlined its budgetary plans and expenditure. An important feature was the absence of any new taxation. Inflation for the first 2 months of 2018 was negative 0.2 percent. Government of Jamaica Treasury Bill rates fell below 3 percent for the first time in more than 50 years.

Government projects growth in the economy of 2.4 percent for 2018 and if achieved, will represent a significant improvement in outturn over 2017.

KEY on Track

Here at Key, the year ended without any catastrophic losses. We are proud to report gross premium income of $1.4 billion in 2017, representing a 33 percent increase on our milestone achievement of $1 billion in 2016.

Our final quarter results reflect profit of $58.7 million and we expect this positive trend to continue in 2018, with projections for increased premium income and profit.

2017 was affected by a one-off payment of $36 million relating to staff separation, which is not expected to recur in 2018. This will result in savings, which will redound to profit and growth in premium business.

Projections are for further growth in business during the year, primarily driven by increases in gross premium income. Our team is committed to the planned objective of growth and while our general strategy is to expand all classes of business, including the introduction of innovative products, we are now in full gear to maximize performance with certain KEY targets and policies.

Here at Key,
we are committed
to improving the
standards of excellence
of our workforce and the
**efficient management
of our resources.**

Executive Senior Management Team

Heather Bowie , FCII, CIP, MBA

Claims Operations Manager

Heather Bowie, a trained teacher, joined the Insurance Industry in 1980. Her insurance career began at the Insurance Company of the West Indies (ICWI) and Key Insurance Company, where she is the Claims Operations Manager.

She is a Fellow of the Chartered Insurance Institute (FCII), a Chartered Insurance Professional (CIP) and holds a Masters in Business Administration (MBA) from the Manchester Business School, University of Manchester. Heather serves as a Trustee of the Company's Pension Fund.

She is currently a Board Member of the College of Insurance & Professional Studies (CIPS) and President of the Jamaica Society of Insurance Professional & Technicians (JSIPT). Heather served as Chairman of the Underwriting and Claims Committees and continues to impact the industry as a part-time lecturer.

Carlene Isaacs, BSc, Dip Insurance

Reinsurance Manager

Carlene Isaacs has over 25 years of experience in Underwriting and Reinsurance. She joined the Company in 2009 as a Reinsurance Technician and was later promoted to Reinsurance Manager. In 2017, she was elected by the staff to be a Pension Trustee and also now leads the Corporate Social Responsibility Team.

Carlene began her career in the industry as a Property Underwriter at JN General Insurance Company (formerly NEM Insurance Company). After several years in the Property and Accident Department, she received Reinsurance training at Heath Fielding Reinsurance Brokers and completed the Mercantile & General International Reinsurance Course held in the U.K.

After her training in the U.K., she transferred to the Reinsurance Department as a Reinsurance Technician where she continued her training, gaining valuable work experience and was promoted after 2 years.

Carlene left the industry to pursue her first degree and on completion, she joined the staff of United General Insurance Company (now Advantage General Insurance Company Limited) for 4 years as Underwriting Superintendent before returning to JN General Insurance Company as Assistant Reinsurance Manager in 2005.

She holds a BSc in Management and Accounting from the University of the West Indies, Diploma in Business Administration from the University of Technology and Diploma in Insurance from the College of Insurance and Professional Studies.

Patrick Reid

Systems Manager

Patrick Reid, an I.T. Consultant with a decade of experience in the software industry both locally and regionally, serves as the Company's Systems Manager. Prior to his employment, he worked as a consultant on numerous projects at, EPIC Technologies, a major regional software firm based in Kingston, Jamaica.

His portfolio included the development of a Pedagogy Administration software named Agoge, which is used by the College of Insurance Professional (CIPS); a Hotel Claims Management package installed at a major Insurance brokerage firm and the design of analytic modules for various packages including IVIS and HRMNext™. Along with his role as a consultant, he also supported software packages for Brokers/Agents (BrokerOne™) and Insurers (Underwriter™).

Armed with a Master Certificate from Villanova University in Business Intelligence, his focus has been primarily on Business Analysis/Analytics and Data Science using quantitative methods along with expanding his networking expertise.

Jacqueline Johnson, BSc, MSc, CIA, CISA, FCA, FCCA

Finance Director

Jacqueline Johnson is an accomplished Executive Manager and a Management Consultant with over 20 years' experience in Financial and Internal controls, General management, Risk management, Cost Reduction, Due Diligence, Accounting and Corporate Turnaround Management.

As an avid believer in philanthropy and humanitarianism, Jacqueline served as the Executive Director of the charity organization, Food for the Poor (FFP), from 2012 to 2014, with direct responsibility to oversee the operation with a complement of approximately 115 dedicated employees. She executed this role with the utmost attention to efficiency, equity, transparency and brand protection.

Prior to joining the FFP team, she devoted 3 years to the Lasco Group of Companies as Chief Financial Officer of the Lasco Affiliated Companies and General Manager for the Pharmaceutical Division. She also held the position of Chief Financial Officer at Hardware & Lumber, a subsidiary of the GraceKennedy Group, for 2 years, after transitioning from Chief Internal Auditor and Group Internal Audit Manager for 9 years at GraceKennedy Group Limited. In 1992, she joined PricewaterhouseCoopers, spending 5 years in the Audit Department and 1 year in the Tax Department. Additionally, Jacqueline served in the capacity of Revenue Agent and was one of the authors of the General Consumption Tax Act; thereafter, she remained with the department for 3 years.

As a devout Christian, and with strong leadership and team building skills, Jacqueline is a Board Member of New Life Foundation. She also sits on the Audit Committee of the University Hospital of the West Indies.

She is pursuing her Doctorate in Business Administration focusing on Corporate Turnaround and has a MSc in computer-based Management Systems (with Distinction). Jacqueline has also attained a Certificate in Enterprise Risk Management from the Jack Robinson College of Business, Georgia State University, USA.

Treveen Little, BA, LLB, LLM, PAD

Corporate Services Manager

Treveen was appointed Corporate Services Manager, with the recent fourth quarter management changes in the Company. This portfolio encompasses the Legal, Compliance and Human Resource Divisions of the Company. She continues in her role as the Company's General Legal Counsel with oversight of the Claims Department in managing claims, negotiating settlements and overall responsibility for much of the Company's legal affairs.

Her portfolio also includes that of the Company's Corporate Secretary & Compliance Officer with responsibility for ensuring that the Board and the Company remain astute in executing its statutory and regulatory obligations, and function in a manner that aligns with best Corporate Governance practices. She has assumed the challenge and responsibility associated with managing the Human Resource Department as during her formative years, she spent many summers working in her father's Human Resource Consultancy firm and remains committed and energized to serve and engage the Company's greatest asset—their people.

Treveen, a 2010 graduate of the Norman Manley Law School, has entered her seventh year of legal practice in the General Insurance Industry. She holds a BA in History and Criminology and is a certified Corporate Secretary, certified Director and a Supreme Court Mediator.

Formerly, she spent three years working as a Legal Officer for GK General Insurance Company (then Jamaica International Insurance Company) and later founded her own general legal practice to nurture competencies in other areas of law before joining the Key Insurance Company Limited family in January 2014.

Shortly after joining Key, Treveen completed her post-graduate studies in Commercial & Corporate Law, so as to enhance her knowledge base and create greater value for her employers.

She is a devoted Christian and currently serves her church through ministry to young adults and in the Trust Services Department.

Sophia Phillipps, BA, CIP

Underwriting Manager

Sophia Phillipps rejoined the Company as Underwriting Manager in 2009. Under her guidance and leadership, Underwriting results grew steadily to a 68 percent increase in premiums written from 2009 to 2015, with some of the lowest loss ratios in the local industry.

Sophia boasts a track record of 21 years of Underwriting and Claims experience in the General Insurance Industry. She first began her career at Key Insurance Company Limited in 2007 and was soon promoted to the position of Manager at the Ocho Rios branch, a position she held for 2 years before migrating to Toronto, Canada.

She continued her work in the insurance industry in Canada at TD Insurance- Meloche Monnex, as team leader in the Claims Department for 10 years. During that period, she worked on various Customer Service projects that were implemented across the country.

On her return to Jamaica, Sophia accepted a position as a Management Trainee at CGM Gallagher Insurance Brokers reporting to several Vice Presidents. Her portfolio covered a number of projects, which included company expansion into Western Jamaica, marketing new products, tender teams and handling client accounts.

She holds a BA in Political Science and Philosophy from Concordia University, Montreal, Canada, and the designation, Chartered Insurance Professional (CIP).

Here at Key,
our clients and their
satisfaction are the
core of our business.

Management Discussion and Analysis

Strategic Planning is KEY to organizational alignment. Managing Director, Sandra Masterton chairs an Executive meeting with the Senior Management Team. (l-r), Jacqueline Johnson, Finance Director, Patrick Reid, Systems Manager, Sophia Phillipps, Underwriting Manager, Carlene Issacs, Reinsurance Manager, Treveen Little, Corporate Services Manager, and Heather Bowie, Claims Operations Manager.

Key Insurance Company had a successful year earning net profit of $42.7 million, an $84.9 million reversal of the loss of $42.2 million in 2016, as presented in the Audited Financial Statements for the year ended December 31, 2017.

The final quarter of the financial year generated profit of $58.7 million compared to a loss of $118.6 million for the similar quarter in 2016.

Against this background, Management presents its assessment of some of the KEY developments during the financial year and peeks at some developments for 2018. The expenses to premium income ratio declined by 15 percent, and realized gains on investment securities, which positively impacted the turnaround performance.

The Management Discussion and Analysis (MD&A) is intended to present an evaluation of the Company's Results of Operations for the financial year ended December 31, 2017 by comparison with previous years, and an analysis of some of the data presented in the 2017 Audited Financial Statements and Accompanying Notes.

Founded by the late Sonny Gobin, Key Insurance Company began underwriting in 1983 and has evolved into a valued entity in the local insurance industry. The Head Office, located in Cross Roads, Kingston, is supported by five branches - Ocho Rios, Montego Bay, Mandeville, Portmore and May Pen.

In 2016, the Company took the major decision to list its shares on the Junior Market of the Jamaica Stock Exchange, resulting in a successful Initial Public Offering (IPO). Now in its second year as a listed Company, Key has continued to make its mark on the landscape. With improved results for 2017 and the expected continuation of this performance in 2018, Management expects to see keen interest in the stock, as we forge ahead to a successful and profitable future for our shareholders and stakeholders.

As a public Company, Key has a moratorium on income taxation for the initial 5 years after listing. This serves as a catalyst in shoring up capital at a faster rate than would have been possible if the Company was not listed, while providing additional funding for improved efficiency and service. In addition, the Company's profile has been elevated and the attendant publicity from the trading of shares augurs well for long-term growth and development.

Efficiency and Growth Agenda

The Company is now in full gear to strategically implement long-term plans and targets on a phased basis. In quarter 4 of the financial year, Key embarked on an agenda of enhanced efficiency and growth to better meet projections and the demands of a public Company.

As an initial move, the Company reduced its staff complement by 4 persons resulting in a modified management structure. Executive Board Chairman, Natalia Gobin-Gunter and Executive Director, Kala Abrahams, both veteran Senior Managers, relinquished their operational positions as Deputy Managing Director and Purchasing/Web Operations Manager respectively, effective September 30, 2017. Natalia and Kala, who each contributed over two decades of service to the success of the Company, now serve as Non-Executive Directors to the Board, with Natalia retaining her role as Chairman.

Their portfolio assignments were reallocated within the Company, with Company Secretary, Treveen Little undertaking the portfolio of Human Resource Management and Sophia Phillipps, Underwriting Manager, assuming temporary responsibilities for Marketing. Responsibilities for Purchasing have been reassigned to Lilianna Cisneros, Property Claims Handler and Personal Assistant to the Managing Director.

A strategic decision was taken to expand the portfolio of Corporate Services Manager to include Human Resource, because of the inextricable linkages between matters of law and compliance and Human Resource Management. Additionally, the Legal Officer/ Compliance Officer historically worked alongside the former HR Manager in a consultative capacity. Therefore, broadening the portfolio of responsibilities was not difficult.

Other operational enhancements include the engagement of a marketing firm to attend to a number of project related marketing activities that would not require full time in-house personnel.

The changes have resulted in cost saving, which in tandem with other developments is projected to realize increased profitability and efficiency going forward. In 2018, the full effect of the change is expected to be seen in lower operating costs, as projected growth in revenue should outpace expenses. This is already reflected in the December quarter results, which realized administrative costs of $100 million compared to $129 million for the corresponding quarter in 2016.

Enterprise Risk Management

CELTIC Assurance has been engaged to establish an Enterprise Risk Management Programme for the Company. The programme is intended to provide comprehensive consultancy services to:

1. Undertake Risk Assessment for the Business Function Areas (BFA), which entails developing a Risk Map and Risk Register to identify the risk tolerance level, better identify and assess the probability, frequency, impact and cost of its risks, control measures and establish risk mitigating strategies.
2. Develop a Risk Register related to the Business Strategy.
3. Establish a holistic method of managing risks using Enterprise Risk Management to follow a global standard to assess, report on, communicate and govern risks throughout Key Insurance, from the Board to all BFA and other essential stakeholders. This will entail the development of the following services:
    a) Enterprise Risk Management Policy
    b) Enterprise Risk Management Framework
    c) Enterprise Risk Management Strategy
4. Make recommendations on the policies required for the business.

KEY Factors that Drive us

At the core of our business is the satisfaction of our clients, shareholders and all other stakeholders. To this end, we are focused on driving sustained growth through:

- Effective management systems and organizational structures to meet tasks and goals.
- Improvement of the standards of excellence of our workforce.
- Systematic planning and strategizing.
- Development of innovative products to meet the diverse needs of our clientele.
- Efficient delivery of service to our clients.
- Efficient management of our resources.
- Strategic reviews of the Company's performance.
- Cutting edge technology.

Executive Management

Key's team of Executive Managers is integral to the day-to-day operations of the Company, with each contributing experience and expertise ranging from Management, Accounting, Finance and Investment to Underwriting, Claims, Compliance, Legal Services, Human Resources and Technology.

The team, coordinated by the Managing Director, is responsible for attaining the targeted objectives set by the Company. Team meetings are held monthly and occasionally, depending on the size of the team. We are adept at meeting as an entire team, or as sub-groups to make pivotal decisions with precision and alacrity when needed.

Key Insurance operates with strict budgetary alignments and there are established expenditure and spending authority limits for all Senior Executives. Each Department is guided and managed by the Company's Policy Manuals.

Portfolio

The Company is appropriately licensed by the Financial Services Commission of Jamaica (FSC) to provide insurance. Some of the policies written are:

- **Motor Vehicle**
- **Fire & Allied Perils/Commercial All Risks**
- **Business Interruption**
- **Professional Indemnity**
- **All Risks**
- **Money**
- **Employer's Liability & Public Liability**
- **Goods in Transit**
- **Fidelity Guarantee**
- **Engineering**
- **Burglary**
- **Travel**
- **Personal Accident**

The Company strives to consistently apply prudent underwriting practices, including careful risk selection and technical pricing. We also aim to manage our exposure to capital intensive long-term liability insurance lines.

Developments in the Insurance Industry

Key continues to benefit from long-standing relationships with reliable reinsurance partners who remain responsive and committed to our overall objectives.

At the start of 2017, the general view of the reinsurance market was that more than enough capacity existed to meet the demand as well as future projections. We renewed all our Reinsurance Treaties and placed 100 percent. Our reinsurers expected that the overall soft market would continue throughout 2017, if there were no major events or devastating upheavals. This view was also echoed by the players in the local insurance market.

However, this outlook began to change very early in the 2017 Hurricane Season, which had 17 named storms and was the fifth most active in the annals of weather patterns dating back to 1851 and the most active since 2012. All of the season's hurricanes occurred in a row, the highest number of consecutive hurricanes in the satellite era. The season is the only one on record to have multiple Category 5 hurricanes, and only the second to have 2 hurricanes making landfall.

Regional Catastrophes

Overall, 2017 proved to be one of the costliest for reinsurers and insurers across the globe, in terms of losses from major catastrophes - earthquakes in Mexico and Australia and wildfires in California, Vancouver and British Columbia in Canada; floods in Texas, India, Peru and Malaysia - to name a few. Estimates of insured losses are still being calculated, with insured losses alone from Hurricanes Harvey, Irma, Maria, and the Mexico earthquakes projected to surpass US$100 billion.The current estimate worldwide stands at approximately US$370 billion in damage. The overall economic losses will undoubtedly exceed insured losses with the loss of human lives being the most devastating and unmeasurable.

While Jamaica was spared major hurricanes and other events that could have had a significant impact for insurance companies, the losses suffered in other regions will have an effect on the cost of reinsurance across the world and especially in the Caribbean region in 2018. For 2018, there were no changes to the composition of our treaties or panel of reinsurers.

Jamaica

Although Jamaica was not directly affected by any of the storms or earthquakes, the island was impacted by major lightning and heavy rains. Flooding caused damage to roads, bridges and homes in several parts of the island. The local insurance industry began to feel the impact of the major losses sustained by reinsurers in the last quarter of 2017 and as such, they stipulated that rates had to be increased.

Consequently, some property rates may climb up to and over 100 percent in an attempt to correct pricing. We are predicting that some clients may reduce the amount of insurance they purchase to accommodate the increases in premiums, or allow some of their policies to lapse.

Going forward, we remain assured that the Company is equipped to meet the demands of the day supported by the requisite Reinsurance Treaties with some of the world's largest and foremost reinsurers.

Underwriting

New Business and Products

In 2017, the Company signed on a new Broker Agreement with Sarifa Insurance Brokers Limited.

Agents, Brokers and Referral Partners are a valued component of our business, accounting for 70 percent of our premium income. A total of 25 Brokers are now registered with the Company.

Key continues to be committed to expanding its business to better serve our clientele. We strive to meet the demands of our customers by developing quality products at competitive prices. In 2017, we introduced our Homeowners' /Renters' Contents Insurance.

There are exciting new products in the pipeline scheduled for launch in 2018. We are confident that these policies will be a big hit in the market-place and announcements will be made in due course.

Reducing Underwriting Expenses

As we continue to upgrade and improve our processes, the paperless procedure for our larger book of business - the Motor Vehicle portfolio - was cemented during the year. This has considerably reduced the processing time, which will positively impact both our clients and team members.

Revenues and Profitability

The Company wrote a fair amount of insurance business during the year under review, with gross premium income growing 33 percent to $1.4 billion in 2017 versus $1.1 billion in 2016.

This comes against the backdrop of inflation of approximately 5 percent for 2017 and premium rates falling by as high as 50 percent for property and 10 percent for motor. Reinsurance ceded in 2017 was $509.8 million, up from $435.9 million in 2016. Net premiums grew by 46 percent versus 36.5 percent to $930.3 million in 2017 compared to $645.9 million in 2016. Net premiums for the last quarter stood at $293.6 million compared to $199.2 million, $216.3 million and $221.3 million in quarters 1, 2 and 3 respectively. In 2016, net premiums were $122.3 million, $161.8 million,

$165.5 million and $196.2 million in quarters 1, 2, 3 and 4 respectively.

Underwriting Operations

Underwriting operations ended with a loss of $63 million in 2017 compared to a loss of $125.2 million in the prior year. This was partially covered by investments and other income.

Financial Status

Liquidity and Capital Resources

Investments and Liquid Assets comprise Cash and Deposits and Investment Securities. These are liquid and are based on our ability to meet claims promptly. Additionally, funds generally flow from policyholders and brokers. Insurance Reserves, the amount set aside for known and probable claims, based on management and actuarial assessment, stood at $1.2 billion in 2017 as against $1.3 billion in the prior year.

Equity

The Company's finances were strengthened with the increase on Retained Earnings and Capital Reserve, which saw Shareholders' Equity rising from $1 billion in 2016 to $1.1 billion in 2017.

Outlook

Based on strong increases in premium income in the Company's 2017 fourth quarter and the high level of unearned income at year end, coupled with the cost-cutting exercise in the second half of 2017, Management expects results for the first quarter of 2018 to be ahead of the similar period in 2017. This performance bodes well and is anticipated to reflect in overall improvement for the year ahead, barring major catastrophes or claims.

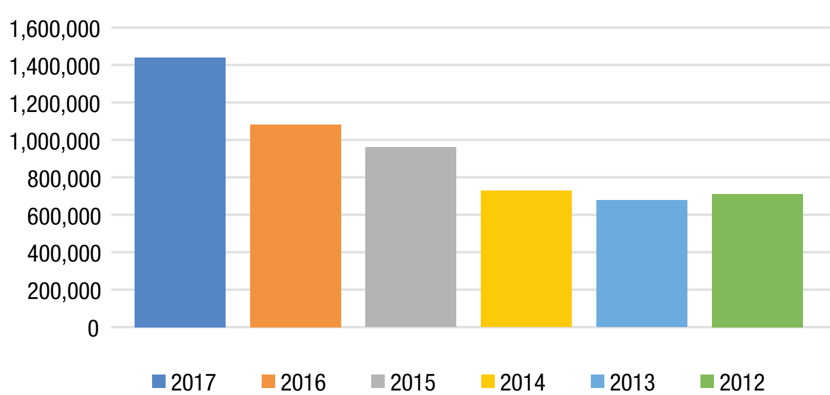
Moreover, the change process rolled out in 2017 is scheduled to continue on a phased basis to boost Key's performance. The 2018 focus, now in full gear, is aimed at:

- Driving Growth and Efficiency
- Driving Revenue
- Driving Profit

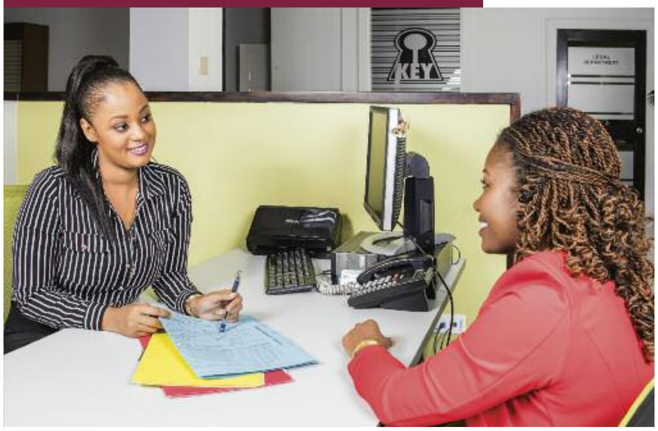
[**Systematic planning** and **strategizing** are KEY components of our growth plan.]

Statement of Comprehensive Income 2017 & 2016	Quarter 1 2017 $'000	Quarter 1 2016 $'000	Quarter 2 2017 $'000	Quarter 2 2016 $'000	Quarter 3 2017 $'000	Quarter 3 2016 $'000	Quarter 4 2017 $'000	Quarter 4 2016 $'000	Year 2017 $'000	Year 2016 $'000
Net premium income written	**199,167**	**122,328**	**216,279**	**161,795**	**221,276**	**165,505**	**293,576**	**196,237**	**930,298**	**645,865**
Less Expenses										
Net insurance reserves change	27,549	5,432	33,368	18,847	20,350	26,991	55,638	17,603	136,905	68,873
Net commission expense	9,276	2,525	9,110	4,914	12,685	5,163	19,026	11,014	50,097	23,616
Net claims incurred	87,628	40,748	84,092	89,989	95,491	(32,818)	110,319	170,539	377,530	268,458
Administration and other expenses	93,195	85,880	99,123	94,741	136,569	100,259	99,919	129,216	428,806	410,096
	217,648	134,585	225,693	208,491	265,095	99,595	284,902	328,372	993,338	771,043
Underwriting profit/(loss)	(18,481)	(12,257)	(9,414)	(46,696)	(43,819)	65,910	8,674	(132,135)	(63,040)	(125,178)
Other income	15,761	15,170	20,185	35,815	18,120	18,453	53,714	5,180	107,780	74,618
Pre-tax profit/(loss)	(2,720)	2,913	10,771	(10,881)	(25,699)	84,363	62,388	(126,955)	44,740	(50,560)
Taxation	1,618	(15)		(15)			(3,695)	8,356	(2,077)	8,326
Net profit/(loss)	(1,102)	2,898	10,771	(10,896)	(25,699)	84,363	58,693	(118,599)	42,663	(42,234)
Change in net premium income written	63%		34%		34%		50%		44%	
Reinsurance test	67%	62%	59%	56%	59%	55%	72%	66%	65%	60%

Gross Premium 2012 - 2017



Customer Service



Kristen James, Underwriter (l) discusses the Company's motor policy with a customer.

Kirk Johnson, a customer at Key for more than a year, receives assistance with settling his claim from Heather Bowie, Claims Operations Manager.

In today's technologically driven fast paced environment, customers desire nothing less than efficient personalized service. With excellence as our trademark, we utilize these KEYS to successfully serve our customers.

- **Prompt Claim Settlement**
  Quality customer service is our KEY to a competitive advantage in the market-place. We recognize that early Claim Settlement ensures peace of mind.

- **Extended Hours of Operation**
  Fueled by satisfied customers, our opening hours of operation include Saturdays at all of our branches.

- **Strong Team**
  Growth and efficiency are our standards and as such, we have invested in the on-going training of our team to assure quality service to our clientele.

TESTIMONIAL

Sofos Jamaica Limited attests to the invaluable insurance guidance provided by Key for its business.

"We have found their claims handling to be professional and expedited with efficiency. Sofos Jamaica Limited is pleased to refer Key Insurance Company Limited to any business or individual who chooses to use their services."

Sofos Jamaica Limited

TESTIMONIAL

Key Insurance rolls out the Red Carpet for Everyting Clean

"Years ago, I decided that I will never spend any money on insurance outside of a motor vehicle insurance policy. But that changed in January 2017, when early one Saturday morning I received a call that my business place was on fire. Everything went up in flames and I was not insured!

I called my friendly insurance company, Key Insurance, and although I was not insured, they rolled out the red carpet and came to my assistance. They held my hand, walked me through the fire, helped me to get an Assessor's Report, which I could not get from anywhere else.

After all my major losses – customers, goods and machinery – it was like starting over again. Key Insurance rescued me. Now I am fully insured. It is affordable, and I would recommend it to everybody.

Drop your policies from wherever else and come to KEY, because they do care! They have the best Customer Service in Jamaica!

I am forever grateful to Key Insurance."

Matthew Sale
Owner and Operator, Everyting Clean

Internship Programme

KEY to EXCELLENCE

Engendering its culture of Technical Excellence, Teamwork and Team Spirit is the Company's ultimate goal in nurturing and grooming a team with requisite skills. To this end, Key is committed to exposing Jamaica's youth to a career in the insurance industry through its Internship Programme, of which there are two categories - Summer/Periodic Intern and Year Intern.

Now in its thirteenth year, recent graduates of secondary and tertiary institutions engage in the Company's In-House Training Programme, where they learn first-hand about the industry, good work habits and ethical behaviour.

Initially, new interns may be placed in any one of the Company's departments - File Maintenance and Archiving, Underwriting, Claims and Legal, Accounting and Finance, Information Technology, Operations: Human Resources, Marketing, Administration and Compliance - the latter being open only to legal students.

Those who attain a level of mastery in a particular area are granted the opportunity to broaden their scope of knowledge by working in as many departments as possible. Successful Summer Interns are given first preference in subsequent years and the option of placement as a Year Intern.

Key is dedicated to succession planning whilst sensitizing Jamaica's youth to a career in the insurance industry. (l-r) Team Leader, intern Hugh Murray leads fellow interns, Rasheika Heat, Sade Leslie, Kimola Jackson, Dean Russell and Alicia Harris, in an active discussion on the importance of Teamwork and Technical Excellence.

Corporate Social Responsibility

As a proactive Corporate Citizen, Key has contributed widely at the community level to youth, education, the environment and the elderly. The Team steering the Company's Corporate Social Responsibility (CSR) initiatives is led by Reinsurance Manager, Carlene Isaacs.

Key Insurance Inaugural Blood Drive 2018

In partnership with the National Blood Transfusion Service (NBTS), the Company responded to the health sector's critical need for blood supply with its inaugural Blood Drive in February 2018.

The event yielded over 33 units of blood and attracted a number of partners, brokers, valuators and neighbouring businesses that participated in the life-saving initiative.

Key views the Blood Drive as a crucial engagement tool for sensitizing employees and increasing awareness of the vital importance of donating blood. With the annual estimated blood transfusion requirement at 50,000 units, the Company plans to make the Blood Drive an annual event in this important partnership for life.

Giving Blood is KEY!

General Insurance Manager of Caribbean Assurance Brokers Limited, Heather Muirhead-Brown, breaks from her busy day to support the life-saving event.

Paul Marsh, Underwriting Supervisor at Crichton Insurance Brokers, is being screened at Key Insurance's inaugural Blood Drive. Guiding him through the process are Carlene Isaacs, Reinsurance Manager and CSR Team Leader at Key Insurance (centre) and Keishawna Pinnock, Assistant Blood Donor Organizer, NBTS (right).

Carona Elliot, Motor Underwriter at Key Insurance Company Limited (right), supports Conroy Hall, Valuator at Auto Assessors Associates (left), one of Key's valuable partners, as he donates the life-saving fluid recently at the inaugural blood drive.

Torrington Early Childhood Institute

A television set was donated to the Torrington Early Childhood Institute in November 2017, which will support literacy and learning, helping to improve the lives of the students and the overall teaching and learning process.

Students and Key's CSR Team perform a song at the school's carol service in December 2017.

Carlene Isaacs, Reinsurance Manager and Key's CSR Team Leader (left), presents a television set to Dawn Anderson (right), Principal.

Students and team members, Hewitt Duncan and Sherica Chaplin, dressed as Mr. Claus and Mrs. Claus, enjoying the Christmas treat.

Super Sonic Table Tennis Club

Key continues to support and sponsor the Super Sonic Table Tennis Club (SSTTC) through donations. The Club has nurtured National Champions Under 9,11,13 and 15 age groups and plays an important role in fostering excellence in the sport. Popular team member, Ziggy is to be commended for his excellent sporting performance in 2017,

Caring is KEY

Managing Director, Sandra Masterton presents a nebulizer to Underwriting Intern, Rashedia Williams, who suffers from chronic asthma.

In 2017, Key also engaged in the following, among other activities

- Newspaper donation initiative with the Jamaica Society for the Prevention of Cruelty to Animals (JSPCA).
- Donation of a stove to the Waltham Basic School.
- Donations of clothing and non-perishables to Walker's Place of Safety.

Historical Financial Data

6 Year Financial History Balance Sheet (J$'000)	2017	2016	2015	2014	2013	2012
No. of Shares Issued	**368,461**	**368,461**	**315,771**	**315,771**	**315,771**	**315,771**
Shareholders' equity	1,095,030	1,017,495	903,621	828,990	757,285	768,549
Property, plant and equipment	191,883	313,753	281,089	287,228	161,788	153,427
Investment properties	329,650	185,150	173,100	152,020	138,020	129,015
Total assets	2,450,033	2,421,851	1,971,909	1,847,684	1,928,962	1,968,628
Insurance reserves	1,238,427	1,337,404	930,707	868,560	987,732	1,088,264
Payables	114,483	65,289	123,355	109,630	99,591	71,057
Receivables	472,906	668,040	314,794	233,961	311,914	390,201
Cash on hand and bank	403,057	451,265	185,923	191,073	23,167	24,390
Investments	713,217	507,479	773,382	734,380	1,006,269	1,015,900
Profit and Loss						
Revenues						
Gross premium	1,440,065	1,081,746	960,973	728,230	677,889	710,839
Reinsurance recovery	(51,589)	803,396	54,262	48,688	122,609	57,855
Commission income	91,301	78,292	85,579	65,191	58,786	67,731
Investment income	49,411	42,288	58,457	55,007	72,061	111,704
Other income	38,673	20,280	14,917	30,019	57,735	33,455
Total revenues	1,619,450	1,222,606	1,119,926	878,447	866,47	923,729
Change versus prior year (%)	32.46	9.17	27.49	1.38	-6.20	7.69
Reinsurance ceded	509,767	435,881	487,959	386,769	382,126	416,872
Insurance claims	344,059	1,044,827	287,473	177,955	292,237	179,881
Commission expense	141,398	101,908	90,113	62,862	55,827	67,266
Administrative expenses	428,806	410,096	318,400	297,428	297,080	283,830
Pre-tax profit	**44,740**	**(50,560)**	**26,871**	**27,869**	**(32,282)**	**24,047**
Change versus prior year (%)	188.49	(288.16)	(3.58)	186.33	(234.25)	283.86
After-tax profit	42,663	(42,234)	23,084	25,086	(15,568)	14,599
Change versus prior year (%)	201.02	(282.96)	(7.98)	261.14	(206.64)	270.57
Important Ratios						
Return on equity	4.04	(4.40)	2.66	3.16	(2.04)	1.93
Return on assets	2%	-2%	1%	1%	-1%	1%
Revenue to receivables	3.4	1.83	3.56	3.75	2.78	2.37
Pre-tax profit margin	3%	-4%	2%	3%	-4%	3%
Insurance ceded	35%	40%	51%	53%	56%	59%
Net claims to premium	27%	22%	24%	18%	25%	17%
Price to sales ratio	6.64	(7.25)	n/a	n/a	n/a	n/a
Price book ratio	1.14	1.09	n/a	n/a	n/a	n/a
Cash per share	1.09	1.22	0.59	0.61	0.07	0.08
Net book value per share	2.97	2.76	2.86	2.63	2.40	2.43
Earnings per share	0.12	(0.12)	0.07	0.28	0.28	0.28
Closing stock price	3.38	3.00	n/a	n/a	n/a	n/a
Price earnings ratio	29.19	(24.07)	n/a	n/a	n/a	n/a
Share premium	14%	9%	n/a	n/a	n/a	n/a

Disclosure of Shareholdings

TOP 10 SHAREHOLDERS
As at December 31, 2017

Primary Account Holder	Units
Sandra Masterton	88,409,444
Natalia Gobin-Gunter	88,409,445
Kala Abrahams	87,356,813
JMMB T1 Equity Fund	43,089,690
JMMBSL Available For Sale	36,846,000
Worldnet Investment Company Limited	11,785,254
MF&G Trust & Finance Ltd - A/C 57	3,157,012
Charles Dunn & Ann-Marie Dunn	1,448,836
SSL Money Managers Growth	1,052,431
Winston Mars & Joan Mars	602,000
Total Percentage of Top 10 Shareholders	**98.29%**

SENIOR MANAGEMENT SHAREHOLDINGS
As at December 31, 2017

Name	Position	Units
Carlene Isaacs	Manager	5,000
Heather Bowie	Manager	5,590
Sophia Phillipps	Manager	15,605
Treveen Little	Manager	93,374
Total Combined Holdings		**119,569**

DIRECTORS' SHAREHOLDINGS
As at December 31, 2017

Name	Position	Units
Kala Abrahams	Non-Executive Director	87,356,813
Keith Collister	Director	60,970
Dennis Brown	Director	NIL
Kisha Anderson	Independent Director	NIL
Michael Fraser	Independent Director	NIL
Natalia Gobin-Gunter	Non-Executive Director	88,409,445
Sandra Masterton	Executive Director Connected Party Holdings Combined Holdings	88,409,444 86,304 88,495,748
Total Holdings of Directors		**264,322,976**

Audited Financial Statements

Index
31 December 2017

EXPRESSION OF OPINION

I have examined the financial condition and valued the premium and claim liabilities of Key Insurance Company Limited for its balance sheet as at 31 December 2017 and the corresponding change in the premium and claim liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and solvency requirements applicable to general insurance companies in Jamaica.

In my opinion:

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

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

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

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

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

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

Xavier Bénarosch
Fellow, Canadian Institute of Actuaries

Kingston, Jamaica
12 March 2018

Eckler

Independent auditor's report

To the Members of Key Insurance Company Limited

Report on the audit of the financial statements

Our opinion

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

What we have audited

Key Insurance Company Limited's financial statements comprise:

- the balance sheet as at 31 December 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 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.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm

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

Our audit approach

Audit scope

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Our 2017 audit was planned and executed having regard to the fact that the operations of the Company remain largely unchanged from the prior year.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Valuation of incurred but not reported claims for property & casualty contracts *See notes 2(o) (claims incurred but not reported), 3(b) (estimates of claims liabilities) and 24 of the financial statements for management's disclosures of related accounting policies, judgements and estimates.*	
As at 31 December 2017, total incurred but not reported claims amount to $182 million.	We tested the completeness, accuracy and reliability of the underlying data utilized by management, and its external actuarial experts, to support the actuarial valuation. Our tests did not identify any exceptions.
The methodologies and assumptions utilized to develop incurred but not reported claims involve a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. There is generally less information available in relation to these claims, which can result	We evaluated the work of management's actuarial expert, including their competence, capabilities and objectivity. We were assisted by actuarial specialists who performed a review of the actuarial valuation performed by management's actuary. In

in variability between initial estimates and final settlement. A range of methods, may be used to determine these provisions.

Management engaged an independent actuarial expert to assist in determining the value of claims incurred but not reported.

We focused on this area because, underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims which are subject to complex calculations.

evaluating management's valuation, the actuarial specialist challenged the assumptions used by management and assessed the methodologies used for appropriateness and consistency with established actuarial practice and methodologies used in the prior year.

The assumptions used by management were found to be reasonable and the methodologies appropriate and consistent with the prior year.

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

PricewaterhouseCoopers

Chartered Accountants
29 March 2018
Kingston, Jamaica

Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017	2016
		$'000	$'000
Gross Premiums Written		1,440,065	1,081,746
Reinsurance ceded		(509,767)	(435,881)
Net premiums written		930,298	645,865
Change in unearned premium reserve, net		(151,646)	(111,830)
Net Premiums Earned		778,652	534,035
Change in insurance reserves		14,741	42,957
Commission on reinsurance ceded		91,301	78,292
Commission on premiums written	8	(141,398)	(101,908)
Claims expense	8	(334,059)	(1,044,827)
Reinsurance recoveries	4(b), 8	(51,589)	803,396
Change in unexpired risk reserves		8,118	(27,027)
Administration and other expenses	8	(428,806)	(410,096)
Underwriting Loss		(63,040)	(125,178)
Investment income	10	49,411	42,288
Gains on revaluation of investment properties	19	19,696	12,050
Other income	11	38,673	20,280
Profit/(Loss) Before Taxation		44,740	(50,560)
Taxation	12	(2,077)	8,326
Net Profit/(Loss)		42,663	(42,234)
Other Comprehensive Income:			
Items that may be subsequently reclassified to profit or loss:			
Net gain on the revaluation of available-for-sale investment securities		30,754	24,539
Items that will not be subsequently reclassified to profit or loss:			
Revaluation gains on property, plant and equipment		5,000	16,998
Deferred tax (charge)/credit on revaluation of property, plant and equipment		(882)	6,616
Other Comprehensive Income		34,872	48,153
Total Comprehensive Income for the Year		77,535	5,919
Earnings/(Loss) per Share	28	0.12 cents	(0.12) cents

Balance Sheet

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated

	Note	2017 $'000	Restated 2016 $'000	Restated 2015 $'000
ASSETS				
Cash and deposits	13	403,057	451,265	185,923
Investment securities	14	713,217	507,479	773,382
Due from policyholders, brokers and agents	15	226,762	139,284	76,870
Due from reinsurers	16	246,144	528,756	237,924
Deferred policy acquisition costs		131,858	112,401	70,778
Taxation recoverable		192,169	181,468	168,044
Other receivables	17	11,852	280	3,701
Investment properties	19	329,650	185,150	173,100
Intangible assets	20	3,441	1,149	1,098
Property, plant and equipment	21	191,883	313,753	281,089
Deferred taxation	23	-	866	-
		2,450,033	2,421,851	1,971,909
LIABILITIES AND EQUITY				
Liabilities				
Bank overdraft	13	-	1,663	150
Other payables	22	33,868	25,795	26,419
Due to reinsurers		80,615	39,494	96,936
Deferred taxation	23	2,093	-	14,076
Insurance reserves	24	1,238,427	1,337,404	930,707
		1,355,003	1,404,356	1,068,288
Equity				
Share capital	25	235,282	235,282	127,327
Capital reserve	26	57,371	57,371	57,371
Fair value reserves	27	358,721	304,153	243,950
Retained earnings		443,656	420,689	474,973
		1,095,030	1,017,495	903,621
		2,450,033	2,421,851	1,971,909

Approved for issue on behalf of the Board of Directors on 29 March 2018 and signed on its behalf by:

Sandra Masterton Director

Kala Abrahams Director

Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated

	Share Capital $'000	Capital Reserve $'000	Fair Value Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2016, as restated	127,327	57,371	243,950	474,973*	903,621
Total comprehensive income for the year	-	-	48,153	(42,234)	5,919
Shares issued during the year (Note 25)	107,955	-	-	-	107,955
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from retained earnings	-	-	12,050	(12,050)	-
Balance at 31 December 2016, as restated	235,282	57,371	304,153	420,689*	1,017,495
Total comprehensive income for the year	-	-	34,872	42,663	77,535
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from retained earnings	-	-	19,696	(19,696)	-
Balance at 31 December 2017	235,282	57,371	358,721	443,656	1,095,030

* - Restated for reinsurance recovery of excess of losses (see Note 32).

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			
Net profit/(loss)		42,663	(42,234)
Adjustments for:			
Amortisation and depreciation	20, 21	14,013	12,197
Gain on sale of property, plant and equipment		(90)	(150)
Gain on sale of available-for-sale investment securities	11	(36,074)	-
Gains on revaluation of investment properties	19	(19,696)	(12,050)
Loss/(gain) on foreign exchange	11	13,276	(9,900)
Dividend income	10	(4,779)	(2,536)
Interest income	10	(44,632)	(39,752)
Taxation	12	2,077	(8,326)
		(33,242)	(102,751)
Changes in operating assets and liabilities			
Due from policyholders, brokers and agents		(87,478)	(62,414)
Deferred policy acquisition costs		(19,457)	(41,623)
Insurance reserves		(98,977)	406,697
Due from reinsurers		282,612	(290,832)
Due to reinsurers		41,121	(66,198)
Other assets		(11,572)	3,421
Other liabilities		8,073	(624)
		81,080	(154,324)
Taxation paid		(11,912)	(13,424)
Net cash provided by/(used in) operating activities		69,168	(167,748)
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	21	(10,925)	(27,757)
Acquisition of intangible asset	20	(2,711)	(157)
Acquisition of investment properties	19	(603)	-
Proceeds on disposal of property, plant and equipment		90	150
Purchase of investments		(623,919)	(590,382)
Disposal/maturity of investments		474,211	891,215
Interest and dividend received		49,851	49,914
Net cash (used in)/provided by investing activities		(114,006)	322,983
Cash Flows from Financing Activity			
Net proceeds from the issue of shares		-	107,955
Net cash provided by financing activity		-	107,955
Net (decrease)/increase in cash and cash equivalents		(44,838)	263,190
Effect of changes in exchange rate on cash and cash equivalents		(1,010)	135
Cash and cash equivalents at beginning of year		445,905	182,580
Cash and Cash Equivalents at the End of the Year	13	400,057	445,905

The principal non-cash transactions were revaluation surplus in relation to property, plant and equipment of $5,000,000 (2016 - $16,998,000) and the transfer of investment properties to property, plant and equipment of $124,201,000 (2016 – Nil).

1. Identification and Activities

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

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

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

2. Significant Accounting Policies

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

(a) Basis of preparation

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

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

Accounting pronouncements effective in 2017 which are relevant to the company's operations

Certain new standards, amendments and interpretations to existing standards have been published that became effective during the current financial year. Management has reviewed these new standards, amendments and interpretations to existing standards and has determined that the following are relevant to its operations:

Amendments to IAS 12, 'Income Taxes' (effective for annual periods beginning on or after 1 January 2017). The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The amendment also clarifies that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. There was no impact from the adoption of these amendment.

Amendments to IAS 7, 'Statement of Cash Flows', (effective for annual periods beginning on or after 1 January 2017). In January 2017, the IASB published amendments to IAS 7 to improve information about an entity's financing activities. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. The amendments require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities including both cash and non-cash changes. The adoption of these amendments did not have a significant impact on the company's financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

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

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2018). In July 2016, the IASB issued IFRS 9 which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

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

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. The company's debt instruments are currently classified as available-for-sale, which is similar to the FVOCI option under IFRS 9; however, these assets may qualify to be carried at amortised cost based on how they are managed and whether the contractual cash flows meets the SPPI requirement. This will lead to changes in accounting for these assets.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income without recycling, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. The company's equity instruments are currently classified as available-for-sale and the company considering the FVOCI election, as none of them is held for trading.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The company expects to adopt IFRS 9 effective 1 January 2018 and will mainly have an impact on impairment of premiums due from policyholders, brokers and agent, amounts due from reinsurers and debt securities, with the application of the expected credit loss model. The impact is yet to be quantified.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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.

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

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Amendments to IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018). This amendment addresses the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional. IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective. The company will not be impacted by the amendment to IFRS4 as it will be adopting IFRS 9.

IFRIC 22, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The company is currently assessing the impact of this interpretation.

IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The company is currently assessing the impact of this standard.

Amendment to IFRS 9, 'Financial instruments on prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The company is currently assessing the impact of this amendment.

IFRIC 23,'Uncertainty over income tax treatments' (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority. The company is currently assessing the impact of this interpretation.

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.

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Functional and presentation currency

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

Translations and balances

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

(c) Financial instruments

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

Financial assets

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

Investment securities

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

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

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

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

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

2. Significant Accounting Policies (Continued)

(c) Financial instruments (continued)

Investment securities (continued)

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

Premiums receivable

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

Cash and cash equivalents

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

Financial liabilities

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

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

(d) Securities purchased under agreements to resell

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

(e) Reinsurance ceded

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

(f) Deferred policy acquisition costs

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

2. Significant Accounting Policies (Continued)

(g) Investment properties

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

(h) Property, plant and equipment

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

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

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

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

Annual depreciation rates are as follows:

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

Land is not depreciated.

Leasehold improvements are amortised over the period of the lease.

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

2. Significant Accounting Policies (Continued)

(i) Intangible assets

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

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

(j) Impairment of long-lived assets

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

(k) Leases

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

(l) Provisions

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

(m) Payables

These amounts are recognised at cost.

(n) Insurance reserves

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

2. Significant Accounting Policies (Continued)

(o) Insurance reserves (continued)

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

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

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

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

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

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

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

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

(p) Income taxes

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

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

2. Significant Accounting Policies (Continued)

(p) Income taxes (continued)

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

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

(q) Employee benefits

Pension obligations

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

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

Vacation

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

Termination benefits

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

(r) Revenue recognition

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

Sale of insurance services

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

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

2. Significant Accounting Policies (Continued)

(r) Revenue recognition (continued)

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

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

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

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

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

(b) Key sources of estimation uncertainty (continued)

Estimates of claims liabilities (continued)

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

4. Insurance and Financial Risk Management

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

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

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

(i) Finance Department

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

(ii) Audit Committee

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

4. Insurance and Financial Risk Management (Continued)

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

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

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

(a) Insurance risk

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

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

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

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

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

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

4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

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

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

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

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

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

4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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

	2017			2016		
		Policy Limit '000	Maximum Net Retention '000		Policy Limit '000	Maximum Net Retention '000
Commercial property –						
Fire and consequential loss	US$	6,000	US$ 200	US$	6,000	US$ 200
Boiler and machinery	US$	1,125	US$ 281	US$	1,125	US$ 281
Miscellaneous accident	US$	160	US$ 64	US$	160	US$ 64
Bankers blanket	US$	300	US$ 120	US$	300	US$ 120
Contractor's All Risk	US$	1,500	US$ 375	US$	1,500	US$ 375
Liability	US$	2,500	US$ 750	US$	2,500	US$ 750
Travel	US$	150	US$ 15	US$	150	US$ 15
Other	US$	50	US$ 20	US$	50	US$ 20
Motor	J$	20,000	J$ 10,000	J$	20,000	J$ 10,000
Pecuniary loss -						
Fidelity	US$	480	US$ 192	US$	480	US$ 192
Personal accident	US$	10,000	US$ 500	US$	10,000	US$ 500

Sensitivity Analysis of Actuarial Liabilities

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

Development Claim Liabilities

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

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

(expressed in Jamaican dollars unless otherwise indicated

4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Development Claim Liabilities (continued)

		2013	2013 and prior	2014	2014 and prior	2015	2015 and prior	2016	2016 and prior	2017	2017 and prior
2013	Paid during year	37,146	172,024								
	UCAE, end of year	95,875	374,959								
	IBNR, end of year	79,325	115,428								
	Ratio: excess (deficiency)										
2014	Paid during year	63,771	145,083	22,236	167,319						
	UCAE, end of year	67,466	253,476	82,417	335,893						
	IBNR, end of year	19,280	40,928	75,818	116,678						
	Ratio: excess (deficiency)		18.72%								
2015	Paid during year	9,743	68,548	56,089	124,637	63,102	187,739				
	UCAE, end of year	57,657	167,441	54,862	222,303	115,220	337,523				
	IBNR, end of year	9,125	19,611	19,518	39,129	121,071	160,200				
	Ratio: excess (deficiency)	19.92%	18.29%	(17.55%)	14.69%						
2016	Paid during year	16,164	42,571	20,644	63,215	89,993	153,208	106,631	259,839		
	UCAE, end of year	22,814	74,255	23,533	97,788	65,572	163,360	118,929*	282,289		
	IBNR, end of year	10,939	115,428	1,318	116,746	43,454	160,200	6,454	166,654		
	Ratio: excess (deficiency)	-29.30%	7.65%	-54.75%	3.37%	-25.43%	4.21%				
2017	Paid during year	3,598	18,562	2,648	21,210	33,261	54,471	156,941	211,412	159,207	370,619
	UCAE, end of year	12,184	38,295	6,183	44,478	21,407	65,885	79,114	144,999	155,770	300,768
	IBNR, end of year	13,332	113,324	1,667	114,991	44,997	159,987	6,666	166,654	16,942	183,596
	Ratio: excess (deficiency)	(25.44%)	11.62%	37.61%	10.85%	(19.53%)	12.89%	(93.58%)	(16.51%)		

4. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Risk exposure and concentrations of risk:

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

	2017				
	Liability	**Property**	**Motor**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Gross Claims liability (not including IBNR)	29,874	48,960	289,373	2,666	370,873
Net Claims liability (not including IBNR)	8,908	3,302	288,343	215	300,768
Gross IBNR, PFAD & ULAE	7,067	1,084	172,455	1,364	181,970
Net IBNR, PFAD & ULAE	7,131	1,094	173,995	1,376	183,596
Net Unexpired Risk Reserve	1,280	11,857	29,464	1,902	44,503

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

4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

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

Risk transfer may be done via a treaty or facultative. Both reinsurance treaties and facultative arrangements are done in order limit the financial exposure that may arise from claims and also to stabilize the company's loss ratios.

For risks written in the property department, the company uses both proportional and non-proportional treaties otherwise called excess of loss. The proportional treaties used are referred to as 'quota share' and 'first surplus'. For these types of treaties, a fixed percentage of the sum insured and premium is ceded to the treaty reinsurer who will in the event of a claim pay the same share of the claim.

The company purchases catastrophe excess of loss reinsurance to protect the portion of risks it retains to its net account from the accumulation and severity of losses that can occur after a catastrophe e.g. an earthquake or hurricane.

The company also buys motor excess of loss to protect against the frequency of losses. The treaty participates on each and every motor claim which exceeds the deductible up to the treaty limit. Facultative reinsurance is used by insurance company on a risk by risk basis. The most common reason for facultative reinsurance is to reduce the exposure one has on a particular risk. Facultative reinsurance can be done locally or overseas. The insurance company, which obtains the initial contract, will seek another insurance company to accept a set percentage of the sum insured for which the company accepting the business is a paid premium. If there is a claim, the facultative reinsurer will then pay its portion of the claim to the company from which the business was obtained.

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

(i) The maximum exposure on insurance policies for all facultative reinsurance arrangements for the company is $35 million (2016 - $29 million) per any one loss.

4. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

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

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

Reinsurance recoveries recognised during the period are as follows:

	2017	**2016**
	$'000	**$'000**
Property	1,311	747,521
Motor	(44,860)	26,238
Engineering	(2,512)	19,920
Accident	(3,492)	2,399
Liability	(2,036)	7,318
	(51,589)	803,396

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk

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

(i) Credit risk

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

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

Credit review process

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

(i) Reinsurance

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

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

(ii) Premium and other receivables

Management utilises periodic reports to assist in monitoring any premiums that are overdue. Where necessary, cancellation of policies is effected for amounts deemed uncollectible.

(iii) Investments, bank and deposit balances

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Aged analysis of premium receivables past due but not impaired

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

	2017 $'000	2016 $'000
61 to 120 days	63,869	28,197
120 to 150 days	14,648	9,398
More than 150 days	48,874	33,347
	127,391	70,942

Premium receivables

The credit exposure for premium receivables is $226,762,000 (2016 - $139,284,000).

Movement in allowance for doubtful debts

	2017 $'000	2016 $'000
Balance at beginning of year	23,672	21,821
Provision for the year	-	16,701
Amounts written off during the year	(6,016)	(14,850)
Recoveries, net	(5,177)	-
Balance at end of year	12,479	23,672

Debt securities

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

	2017 $'000	2016 $'000
Government of Jamaica	121,412	429,239
Corporate	434,970	6,692
	556,382	435,931

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

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

Liquidity risk management process

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

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

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

(iii) Optimising cash returns on investment;

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

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

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

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

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities cash flows

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

	2017					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial Assets						
Cash and deposits	88,609	314,448	-	-	-	403,057
Investment securities	6,084	-	107,737	240,257	360,461	714,539
Due from policyholders, brokers and agents	226,762	-	-	-	-	226,762
Due from reinsurers	70,105	-	-	-	-	70,105
Due from reinsurer (IBNR, PFAD & ULAE	(1,626)	-	-	-	-	(1,626)
Other receivables	11,852	-	-	-	-	11,852
	401,786	314,448	107,737	240,257	360,461	1,424,689
Financial Liabilities						
Other payables	33,868	-	-	-	-	33,868
Due to reinsurers	80,615	-	-	-	-	80,615
Claims outstanding	370,873	-	-	-	-	370,873
IBNR, PFAD & UCAE	181,970	-	-	-	-	181,970
Unexpired risk reserve	44,503	-	-	-	-	44,503
	711,829	-	-	-	-	711,829
Liquidity gap	(310,043)	314,448	107,737	240,257	360,461	712,860

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial assets and liabilities cash flows (continued)

	2016					
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial Assets						
Cash and deposits	60,938	390,327	-	-	-	451,265
Investment securities	3,180	4,324	290,924	47,576	188,095	534,099
Due from policyholders, brokers and agents	139,284	-		-	-	139,284
Due from reinsurers	364,739	-	-	-	-	364,739*
Due from reinsurer (IBNR, PFAD & ULAE	7,863	-	-	-	-	7,863
Other receivables	280	-	-	-	-	280
	576,284	394,651	290,924	47,576	188,095	1,497,530
Financial Liabilities						
Bank overdraft	1,663	-	-	-	-	1,663
Other payables	25,795	-	-	-	-	25,795
Due to reinsurers	39,494	-	-	-	-	39,494
Claims outstanding	647,028	-	-	-	-	647,028
IBNR, PFAD & UCAE	174,517	-	-	-	-	174,517
Unexpired risk reserve	52,621	-	-	-	-	52,621
	941,118	-	-	-	-	941,118
Liquidity gap	(364,834)	391,387	290,924	47,576	188,095	556,412

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

*Restated for reinsurance recovery of excess of losses (see Note 32).

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk

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

Currency risk

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

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

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Concentrations of currency risk

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

	2017		
	Jamaican$	**US$**	Total
	J$'000	**J$'000**	J$'000
Financial Assets			
Cash and deposits	205,770	197,287	403,057
Investment securities	567,380	145,837	713,217
Due from policyholders, brokers and agents	195,118	31,644	226,762
Due from reinsurers	25,112	44,993	70,105
Due from reinsurer - IBNR PFAD & ULAE	(1,626)	-	(1,626)
Other receivables	11,852	-	11,852
Total financial assets	1,003,606	419,761	1,423,367
Financial Liabilities			
Other payables	33,868	-	33,868
Due to reinsurers	48,106	32,509	80,615
Claims outstanding	284,718	86,155	370,873
IBNR, PFAD & ULAE	181,970	-	181,970
Unexpired risk reserve	44,503	-	44,503
Total financial liabilities	593,165	118,664	711,829
Net financial position	410,441	301,097	711,538

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

	2016		
	Jamaican$	**US$**	Total
	J$'000	**J$'000**	J$'000
Financial Assets			
Cash and deposits	174,150	277,115	451,265
Investment securities	272,000	235,479	507,479
Due from policyholders, brokers and agents	121,922	17,362	139,284
Due from reinsurers	37,576	327,163	364,739*
Due from reinsurer - IBNR PFAD & ULAE	7,863	-	7,863
Other receivables	280	-	280
Total financial assets	613,791	857,119	1,470,910
Financial Liabilities			
Bank overdraft	1,663	-	1,663
Other payables	25,795	-	25,795
Due to reinsurers	38,473	1,021	39,494
Claims outstanding	342,665	304,363	647,028
IBNR, PFAD & ULAE	174,517	-	174,517
Unexpired risk reserve	52,621	-	52,621
Total financial liabilities	635,734	305,384	941,118
Net financial position	(21,943)	551,735	529,792

* - Restated for reinsurance recovery of excess of losses see (Note 32).

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Foreign currency sensitivity

The following table indicates the currency to which the company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a revaluation of 2% and devaluation of 4% (2016 revaluation of 1% and a devaluation of 6%) in foreign currency rates. The sensitivity analysis includes cash and short term investments, investment securities and amounts due from policyholders, brokers and agents, and US-dollar denominated liabilities.

	Change in Currency Rate %	Effect on Profit before Taxation $'000	Change in Currency Rate %	Effect on Profit before Taxation $'000
	2017		2016	
United States Dollar				
Revaluation of JMD	(2%)	(6,022)	(1%)	(5,517)
Devaluation of JMD	4%	12,044	6%	33,104

Interest rate risk

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

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

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

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

2017

	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 years $'000	Over 5 years	Non-Interest Bearing $'000	Total $'000
Cash and deposits	69,262	314,448	-		-	19,347	403,057
Investment securities	6,017	-	100,000	208,770	233,647	164,783	713,217
Due from policyholders, brokers and agents	-	-	-	-	-	226,762	226,762
Due from reinsurers	-	-	-	-	-	70,105	70,105
Due from reinsurers – IBNR PFAD & ULAE	-	-	-	-		(1,626)	(1,626)
Other receivables	-	-	-	-	-	11,852	11,852
	75,279	314,448	100,000	208,770	233,647	491,225	1,423,367
Financial Liabilities							
Other payables	-	-	-	-	-	33,868	33,868
Due to reinsurers	-	-	-	-	-	80,615	80,615
Claims outstanding	-	-	-	-	-	370,873	370,873
IBNR, PFAD & ULAE	-	-	-	-	-	181,970	181,970
Unexpired risk reserve	-	-	-	-	-	44,503	44,503
Total financial liabilities	-	-	-	-	-	711,829	711,829
Total interest repricing gap	75,729	314,448	100,000	208,770	233,647	(220,606)	711,538

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate sensitivity

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

	2016						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 $'000	1 to 5 years $'000	Over 5 years	Non-Interest Bearing $'000	Total $'000
Cash and deposit	157,214	293,355	-	-	-	696	451,265
Investment securities	-	-	272,627	9,101	146,819	78,932	507,479
Due from policyholders, brokers and agents	-	-	-	-	-	139,284	139,284
Due from reinsurers	-	-	-	-	-	364,739	364,739*
Due from reinsurers – IBNR PFAD & ULAE	-	-	-	-		7,863	7,863
Other receivables	-	-	-	-	-	280	280
	157,214	293,355	272,627	9,101	146,819	591,794	1,470,910
Financial Liabilities							
Other payables	-	-	-	-	-	25,795	25,795
Bank overdraft	-	-	-	-	-	1,663	1,663
Due to reinsurers	-	-	-	-	-	39,494	39,494
Claims outstanding	-	-	-	-	-	647,028	647,028
IBNR, PFAD & ULAE	-	-	-	-	-	174,517	174,517
Unexpired risk reserve	-	-	-	-	-	52,621	52,621
Total financial liabilities	-	-	-	-		941,118	941,118
Total interest repricing gap	157,214	293,355	272,627	9,101	146,819	(349,324)	529,792

* - Restated for reinsurance recovery of excess of losses see (Note 32).

4. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate sensitivity/Fair value price risk

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

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

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

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

	Effect on Other Comprehensive Income 2017 $'000	Effect on Other Comprehensive Income 2016 $'000
Percentage change equity values:		
15% (2016 - 10%) increase	23,525	7,155
15% (2016 - 10%) decrease	(23,525)	(7,155)
Change in basis points - bond:		
JMD + 100 USD +50 (2016 +100 for both JMD and USD)	(1,338)	(1,425)
JMD -100 USD -50 (2016: JMD -100 USD -50)	1,356	796

(expressed in Jamaican dollars unless otherwise indicated

5. Capital Management

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

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

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

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

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

Available capital includes issued capital, retained earnings, fair value reserves and capital reserves amounting to $1,095,030,000 (2016 - $1,017,495,000) at the end of the year.

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT) which is used by the FSC to determine the solvency of the company. The minimum standard stipulated by the section 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendment) regulations, 2011 is that a general insurance company shall have a minimum MCT percentage of 250% (2016 – 250%). This information is required to be filed with the FSC on an annual basis. Under Section 15(1) of the Insurance Act, 2001, the FSC may cancel the registration of a general insurance company if it is considered to be insolvent.

In January 2017, the FSC announced a measure to allow for relaxation of the required MCT ratio from 250% to 150% for a period of two years. The measure will reduce the amount of capital that the general insurance industry would need to hold for the purpose of meeting capital adequacy requirements. The main reason for the reduction of an insurer's MCT ratio should be due to the reorganization of the company's investment portfolio to pursue local growth initiatives. During this period of regulatory forbearance, the FSC will carry out a Quantitative Impact Study (QIS) to determine an optimal position for the MCT that balances growth and stability of the insurance industry.

To qualify for the special provisions for relaxed MCT ratio, investment proposals must be approved by the FSC and commence within the 2-year window provided for in the January 2017 advisory, that is on or before 3 January 2019. The companies will be required to provide details of the initiatives used to pursue growth and the impact these activities will have on the MCT ratio on a monthly basis. During the period of forbearance, the amount of dividends paid to shareholders of the company should not exceed 50% of profit that was achieved for the previous financial year.

As at 31 December 2017, the company achieved the minimum required level of capital based on the MCT.

	2017	2016
Actual MCT ratio	294%	306%
Minimum required MCT ratio	250%	250%

6. Fair Value Estimation

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

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

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

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

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

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

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

	Level 1 $'000	Level 2 $'000	Total $'000
As at 31 December 2017			
Available-for-sale investments –			
Quoted equities	156,835	-	156,835
Corporate	-	434,970	434,970
Debt securities	-	121,412	121,412
	156,835	556,382	713,217
As at 31 December 2016			
Available-for-sale investments –			
Quoted equities	71,548	-	71,548
Corporate	-	6,692	6,692
Debt securities	-	429,239	429,239
	71,548	435,931	507,479

6. Fair Value Estimation (Continued)

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

There were no transfers between the levels during the year.

Financial Instruments by Category

	2017		
	Loans and receivables $'000	Available for sale $'000	Total $'000
Cash and deposits	403,057	-	403,057
Investment securities	-	713,217	713,217
Due from policyholders, brokers and agents	226,762	-	226,762
Due from reinsurers	70,105	-	70,105
Other receivables	35,613	-	35,613
Total financial assets	735,537	713,217	1,448,754

	2016		
	Loans and receivables $'000	Available for sale $'000	Total $'000
Cash and deposits	451,265	-	451,265
Investment securities	-	507,479	507,479
Due from policyholders, brokers and agents	139,284	-	139,284
Due from reinsurers	338,186	-	364,739*
Other receivables	280	-	280
Total financial assets	929,015	507,479	1,463,047

* - Restated for reinsurance recovery of excess of losses see (Note 32).

6. Fair Value Estimation (Continued)

	Other financial liabilities at amortised cost	
	2017	**2016**
	$'000	**$'000**
Bank overdraft	-	1,663
Other payables	57,629	25,795
Due to reinsurers	80,615	39,494
Claims outstanding	370,873	647,028
Total financial liabilities	509,117	713,980

Fair value sensitivity analysis

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

7. Responsibilities of the Appointed Actuary and Independent Auditors

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

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

8. Expenses by Nature

	2017 $'000	2016 $'000
Advertising	6,156	6,300
Amortisation and depreciation	14,013	12,197
Asset tax	2,477	3,652
Auditor's remuneration	7,523	6,988
Bank charges and interest	4,684	2,307
Donations and subscriptions	3,867	3,785
Computer and data processing expenses	21,990	30,021
Insurance and registration fees	10,102	9,080
Travelling	3,105	8,658
Miscellaneous	5,815	1,900
Motor vehicle expenses	964	10,121
Office expenses	3,793	9,534
Postage, telephone, fax and utilities	13,286	17,287
Printing and stationery	4,183	4,828
Legal and Professional fees	30,323	33,475
Provision for bad debt	6,016	14,850
Rental expenses	7,765	9,359
Investment properties expense	3,704	-
Repairs and maintenance	2,953	6,498
Security	5,217	6,500
Staff costs (Note 9)	270,870	212,756
Administration and other expenses	428,806	410,096
Gross claims	334,059	1,044,827
Reinsurance recoveries	51,589	(803,396)
Claims expense, net of reinsurance recoveries	385,648	241,431
Commission	141,398	101,908

9. Staff Costs

	2017 $'000	2016 $'000
Wages and salaries	186,961	172,024
Redundancy cost	36,236	-
Payroll taxes – employer's portion	20,542	17,498
Pension costs – defined contribution	6,290	5,821
Other staff costs	20,841	17,413
	270,870	212,756

10. Investment Income

	2017 $'000	2016 $'000
Interest income	44,632	39,752
Dividend income	4,779	2,536
	49,411	42,288

11. Other Income

	2017 $'000	2016 $'000
Rental income	11,839	8,350
Net foreign exchange (loss)/gains	(13,276)	9,900
Gain on sale of available-for-sale investment securities	36,074	-
Miscellaneous income	3,936	2,030
	38,673	20,280

12. Taxation

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

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

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

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

	2017 $'000	2016 $'000
Current year taxation charge	-	-
Deferred taxation (Note 23)	2,077	(8,326)
	2,077	(8,326)

12. Taxation (Continued)

Subject to agreement with Tax Administration Jamaica, the company has losses available for offset against future taxable profits of approximately $70,692,000 (2016 - $70,692,000) which may be carried forward indefinitely.

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

	2017 $'000	2016 $'000
Profit/(Loss) before taxation	44,740	(50,560)
Tax calculated at a rate of 33⅓%	14,913	(16,853)
Adjusted for the effects of:		
Income not subject to tax	(6,565)	(3,914)
Expenses not deductible for tax purposes	954	1,458
Relief due to tax losses	(4,646)	-
Effect of tax change in tax status on deferred taxation	-	10,681
Income tax remission	(3,148)	-
Net effect of other charges and allowance	569	302
Tax charge/(credit)	2,077	(8,326)

13. Cash and Deposits

	2017 $'000	2016 $'000
Cash at bank and in hand	88,609	60,244
Short-term deposits (Including repurchase agreements)	314,448	390,325
Interest receivable	-	696
Cash and deposits	403,057	451,265
Bank overdraft	-	(1,663)
	403,057	449,602
Hypothecated funds	(3,000)	(3,000)
Interest receivable	-	(697)
Cash and cash equivalents	400,057	445,905

Short term deposits include a balance of $3,000,000 (2016 - $3,000,000) which has been hypothecated to the Bank of Nova Scotia Limited as security for a credit card facility.

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

	2017 %	2016 %
Jamaican dollar deposits	2.14	4.18
United States dollar deposits	1.77	1.84

14. Investment Securities

Investments comprise the following:

	2017 $'000	2016 $'000
Available for sale		
Government of Jamaica –		
Bonds	119,061	422,084
Interest receivable	2,351	7,155
	121,412	429,239
Corporate	429,371	6,463
Interest receivable	5,599	229
	434,970	6,692
Equities	156,835	71,548
	713,217	507,479

Investment securities include securities with a face value of $45,000,000 (2016 - $45,000,000) which have been pledged with the Regulator, the Financial Services Commission, pursuant to Section 8(1)(b) of the Insurance Regulations, 2001.

The current portion of investment securities amounted to $106,016,000 (2016 - $272,627,000).

15. Due from Policyholders, Brokers and Agents

	2017 $'000	2016 $'000
Premiums receivable	239,511	162,956
Less: Provision for impairment	(12,749)	(23,672)
	226,762	139,284

16. Due from Reinsurers

Amounts recoverable from reinsurers comprise:

	2017 $'000	2016 $'000	Restated 2015 $'000
Unearned premium	177,665	156,154	170,414
Claims outstanding	70,105	364,739*	84,562*
Claims IBNR	(1,626)	7,863	(17,052)
	246,144	528,756	237,924

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

* - Restated for reinsurance recovery of excess of losses see (Note 32).

17. Other Receivables

	2017 $'000	2016 $'000
Staff loans	1,042	280
Other	10,810	-
	11,852	280

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

18. Related Party Transactions and Balances

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

(a) Transactions with related parties were as follows:

	2017 $'000	2016 $'000
Directors' emoluments-		
Fees	4,778	12,810
Remuneration	72,979	48,433

* - Restated for reinsurance recovery of excess of losses see (Note 32).

18. Related Party Transactions and Balances (Continued)

(b) Key management compensation

	2017 $'000	2016 $'000
Wages and salaries	100,809	65,354
Payroll taxes – employer's portion	6,602	6,263
Pension costs	4,746	3,065
	112,157	74,682

19. Investment Properties

Investment properties relate to land owned by the company. These properties were valued at current market value as at 30 September 2017 by E. Maitland Realtor, and NAI Jamaica Langford and Brown qualified property appraisers and valuators, in their reports dated 22nd and 29th November 2017, and 11th and 14th November 2017 respectively. The properties include land which has been leased to third parties for use as parking facilities.

During the year, the company transferred land and buildings from investment properties to property, plant and equipment (PPE) amounting to $124,201,000. These land and buildings were previously used as housing accommodation for members of staff who were made redundant during the year. The properties were subsequently leased to third parties, therefore, allowing for the transfer from PPE to investment properties.

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

	2017 $'000	2016 $'000
At beginning of year	185,150	173,100
Transfer from Property, Plant & Equipment	124,201	-
Additions	603	-
Fair value gains	19,696	12,050
At end of year	329,650	185,150

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

	2017 $'000	2016 $'000
Rental income arising from investment properties	11,939	8,350
Operating expenses incurred on investment properties	3,704	500

20. Intangible Assets

	Computer Software $'000
At Cost -	
At 1 January 2016	12,494
Additions during 2016	157
At 1 January 2017	12,651
Additions during 2017	2,711
31 December 2017	15,362
Amortisation -	
At 1 January 2016	11,396
Amortised for the year	106
At 1 January 2017	11,502
Amortised for the year	419
At 31 December 2017	11,921
Net Book Value -	
31 December 2017	1,149
31 December 2016	3,441

21. Property, Plant and Equipment

	Land and Buildings $'000	Leasehold Improvements $'000	Computer Equipment $'000	Motor Vehicles $'000	Furniture and Fixtures $'000	Total $'000
			2017			
At Cost/Valuation -						
At 1 January	282,405	24,623	30,363	25,370	48,849	411,610
Transfer to investment properties	(142,322)	-	-	-	-	(142,322)
Additions	2,634	-	4,848	-	3,443	10,925
Disposals	-	-	-	(584)	(130)	(714)
Revaluation	5,000	-	-	-	-	5,000
At 31 December	147,717	24,623	35,211	24,786	52,162	284,499
Depreciation -						
At 1 January	20,978	17,632	20,512	15,383	23,352	97,857
Transfer to investment properties	(18,121)	-	-	-	-	(18,121)
Disposal	-	-	-	(584)	(130)	(714)
Charge for the year	3,751	1,196	3,448	2,563	2,636	13,594
At 31 December	6,608	18,828	23,960	17,362	25,858	92,616
Net Book Value -						
31 December	141,109	5,795	11,251	7,424	26,304	191,883

21. Property, Plant and Equipment (Continued)

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

Land and buildings were valued at current market values as at 31 December 2017. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 $'000	2016 $'000
Cost	147,480	155,810
Addition	603	-
Transfer to investment properties	(7,500)	-
Accumulated depreciation	(3,602)	(8,330)
	136,981	147,480

22. Other Payables

	2017 $'000	2016 $'000
Accrued expenses	11,850	6,748
Accrued payroll expenses	6,407	6,812
Statutory	7,315	7,118
Other	8,296	5,117
	33,868	25,795

Balances in relation to other payables are due within 12 months of the reporting date.

23. Deferred Taxation

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

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

	2017 $'000	2016 $'000
At the beginning of the year	866	(14,076)
Deferred tax credited/(charged) to other comprehensive income (Note 27)	(882)	6,616
Deferred tax credited to profit or loss in the statement of comprehensive income (Note 12)	(2,077)	8,326
At end of year	(2,093)	866

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

	Tax losses $'000	Accelerated tax depreciation $'000	Revaluation gains on buildings $'000	Interest Accrued $'000	Total $'000
At 1 January 2016	5,296	5,474	(19,609)	(5,237)	(14,076)
Deferred tax charged to other comprehensive income	-	-	6,616	-	6,616
Deferred tax credited /(charged) to profit in the statement of comprehensive income	8,563	(5,474)	-	5,237	8,326
At 31 December 2016	13,859	-	(12,993)	-	866
Deferred tax charged to other comprehensive income	-	-	(882)	-	(882)
Deferred tax charged to profit in the statement of comprehensive income	(2,077)	-	-	-	(2,077)
At 31 December 2017	11,782	-	(13,875)	-	(2,093)

	2017 $'000	2016 $'000
Deferred tax liabilities that are expected to be settled after more than 12 months after the year end	13,875	12,993
Deferred tax assets that are expected to be recovered after more than 12 months after the year end	11,782	13,859

24. Insurance Reserves

	2017 $'000	2016 $'000
Provision for unexpired risks	44,503	52,621
Provision for unearned premiums	603,734	430,607
Unearned commissions	37,347	32,631
Provision for claims IBNR, PFAD & UCAE	181,970	174,517
Claims outstanding	370,873	647,028
	1,238,427	1,337,404

Included in the provision for claims IBNR and claims outstanding is a provision for adverse deviation of $58,139,000 (2016 - $87,623,000).

	Gross Liabilities 2017 $'000	Ceded 2017 $'000	Net Liabilities 2017 $'000
Provision for unexpired risks	44,503	-	44,503
Provision for unearned premiums	603,734	177,665	426,069
Unearned commissions	37,347	-	37,347
Provision for claims IBNR	94,237	(6,403)	100,640
Provision for adverse deviation	58,139	4,778	53,361
Unallocated claim adjustment expenses	29,595	-	29,595
Claims outstanding	370,873	70,105	300,768
	1,238,427	246,367	992,283

An actuarial valuation was performed by the company's appointed actuary, Eckler Ltd., to value the policy and claims liabilities of the company as at 31 December 2017, in accordance with the Insurance Act of Jamaica. The Insurance Act requires that the valuation be in accordance with accepted actuarial principles.

	Gross Liabilities 2016 $'000	Ceded 2016 $'000	Net Liabilities 2016 $'000
Provision for unexpired risks	52,621	-	52,621
Provision for unearned premiums	430,608	156,154	274,454
Unearned commissions	32,631	-	32,631
Provision for claims IBNR	53,955	(16,279)	70,234
Provision for adverse deviation	87,623	24,143	63,480
Unallocated claim adjustment expenses	32,940	-	32,940
Claims outstanding	647,028	364,739*	282,289
	1,337,406	528,757	808,649

* - Restated for reinsurance recovery of excess of losses see (Note 32).

24. Insurance Reserves (Continued)

In his opinion dated 12 March 2018, the actuary found that the amount of policy and claims liabilities represented in the balance sheet 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 the statement of operations; and that there is sufficient capital available to meet the solvency standards as established by the FSC.

(a) Actuarial data

The data employed in the analysis of outstanding claims and premium liabilities was taken directly from the company's records. Individual items (on both a gross and net basis) used in estimating liabilities as at 31 December 2017 were as follows, grouped by each accident year from 2006 to 2017:

(i) Claims incurred and paid for accident years 2006 onwards.

(ii) Loss adjustment expenses paid for accident years 2006 onwards.

(iii) Paid and incurred large loss amounts in each accident year from 2006 onwards.

(iv) Earned premiums for each year from 2006 to 2017.

(b) Actuarial assumptions

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

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

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

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

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

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

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

24. Insurance Reserves (Continued)

(c) Provision for adverse deviation assumptions

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

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

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

	2017 $'000	2016 $'000
Unexpired risk reserve:		
At the beginning of the year	52,621	25,594
Recognised in profit or loss	(8,118)	27,027
At the end of the year	44,503	52,621
Provision for unearned premium:		
At the beginning of the year	430,607	333,037
Premiums written during the year	1,440,065	1,081,746
Premiums earned during the year	(1,266,938)	(984,176)
At the end of the year	603,734	430,607
Unearned commissions:		
At the beginning of the year	32,631	33,967
Commissions on reinsurance premium written during the year	91,301	78,292
Earned commission recognized in profit or loss	(86,585)	(79,628)
At the end of the year	37,347	32,631

24. Insurance Reserves (Continued)

(d) Change in insurance liabilities (continued)

	2017 $'000	2016 $'000
Provision for claims IBNR:		
At the beginning of the year	166,654	160,200
Current year recognized as part of claims expense – IBNR Gross	7,453	31,369
Current year recognized as part of claims expense – IBNR Recoverable	9,489	(24,915)
At the end of the year	183,596	166,654
Gross Claims Outstanding:		
At the beginning of the year	647,028	394,961
Recognised as part of claims expense in profit or loss	329,825	1,038,373
Gross amount paid during the year	(605,980)	(786,306)
At the end of the year	370,873	647,028
Deferred policy acquisition cost:		
At the beginning of the year	112,401	70,778
Commissions on premium written during the year	91,301	78,292
Direct premium expense incurred during the year	(141,398)	(101,907)
Change in deferred branch acquisition cost during year	69,554	65,240
At the end of the year	131,858	112,401
Unearned reinsurance premiums		
At the beginning of the year	156,154	170,414
Reinsurance premium ceded during the year	509,767	435,881
Reinsurance premium incurred during the year	(488,266)	(450,141)
At the end of the year	177,655	156,154

24. Insurance Reserves (Continued)

(e) Sensitivity analysis

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

	2017	
	Gross IBNR	Net IBNR
	$'000	$'000
10% increase in loss development	11,201	10,463
10% decrease in loss development	(11,485)	(10,735)

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

25. Share Capital

	2017	2016
	$'000	$'000
Authorised -		
496,000,000 (2016 - 650,000) ordinary shares		
Issued and fully paid -		
368,460,863 (2016 - 636,635) ordinary shares at no par value	235,282	235,282

A resolution was passed at a General Meeting on 21 March 2016 that each of the authorised and issued shares of Key Insurance Company Limited be sub-divided into 496 ordinary shares (496 to 1). On 31 March 2016, the company issued 52,689,903 ordinary shares through an initial public offering at a net value of $107,955,000.

26. Capital Reserve

	2017 $'000	2016 $'000
At end of year	57,371	57,371

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

27. Fair Value Reserves

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

	2017 $'000	2016 $'000
At beginning of year	304,153	243,950
Fair value gains on available-for-sale securities	30,754	24,538
Fair value gains on investment properties	19,696	12,050
Revaluation gains on property, plant and equipment	5,000	16,999
Deferred tax (charged)/credited to other comprehensive income (Note 23)	(882)	6,616
At end of year	358,721	304,153

28. Earnings/(Loss) Per Share

	2017	2016
Net Profit/(Loss) from operations ($'000)	42,663	(42,234)
Number of ordinary shares in issue ('000) (2016: weighted average)	368,461	355,288
Earnings/(Loss) per share	0.12 cents	(0.12) cents

29. Segment Information

Management has determined the operating segments based on the reports reviewed by the Managing Director (MD) that are used to make strategic decisions.

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

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

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

29. Segment Information (Continued)

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

The company's operations are located entirely in Jamaica.

	2017		
	Motor	**Non-Motor**	**Total**
	$'000	**$'000**	**$'000**
Gross Premiums written	973,869	466,196	1,440,065
Reinsurance ceded	(69,131)	(440,636)	(509,767)
Net Premiums written	904,738	25,560	930,298
Change in unearned premium reserve, net	(149,375)	(2,271)	(151,646)
Net premiums earned	755,363	23,289	778,652
Underwriting expenses	(782,774)	(58,918)	(841,692)
Underwriting loss	(27,411)	(32,629)	(63,040)

No single customer accounted for 10% or more of total revenues of the company either in 2017 or in 2016.

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

30. Operating Lease

The company leases various branch offices under operating lease agreements. The minimum lease payment for 2017 was $7,765,000 (2016 - $9,359,000).

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

	2017 $'000	2016 $'000
No later than 1 year	9,437	9,359
Later than 1 year and no later than 5 years	38,372	37,436
	47,809	46,795

31. Contingency

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

32. Restatement

The financial statements of the company for the years ended 31 December 2016 and 31 December 2015 have been restated to reflect the effect of recognition of reinsurance recoverable from its reinsurers. The amount was not previously accounted for in the company's financial statements, as there was an omission to submit claims to the reinsurers during the years when the recoveries were due.

The financial statements for the years ended 31 December 2016 and 2015 have been restated to reflect the financial position and results for these amendments. No reconciliation is shown for the statement of changes in equity as the movement is similar to that on the statement of financial position, additionally the change had no impact on the statement of cash flows. The financial effects of these amendments are as follows:

Reconciliation of statement of financial position at 31 December 2015:

	2015 As Previously $'000	Restatement $'000	2015 Restated $'000
Assets			
Due from reinsurers	211,371	26,553	237,924
Taxation recoverable	171,599	(3,555)	168,044
Other assets	1,565,941	-	1,565,941
	1,948,911	22,998	1,971,909
Liabilities	1,068,288	-	1,068,288
Equity			
Share Capital	127,327	-	127,327
Capital reserve	57,371	-	57,371
Fair value reserve	243,950	-	243,950
Retained earnings	451,975	22,998	474,973
	880,623	22,998	903,621
	1,948,911	22,998	1,971,909

32. Restatement (Continued)

Reconciliation of statement of financial position at 31 December 2016:

	2016 Previous $'000	Restatement $'000	2016 Restated $'000
Assets			
Due to reinsurers	502,203	26,553	528,756
Taxation recoverable	185,023	(3,555)	181,468
Other assets	1,711,627	-	1,711,627
	2,398,853	22,998	2,421,851
Liabilities	1,404,356	-	1,404,356
Equity			
Share Capital	235,282	-	235,282
Capital reserve	57,371	-	57,371
Fair value reserve	304,153	-	304,153
Retained earnings	397,691	22,998	420,689
	994,497	22,998	1,017,495
	2,398,853	22,998	2,421,851

Form of Proxy

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....

of..

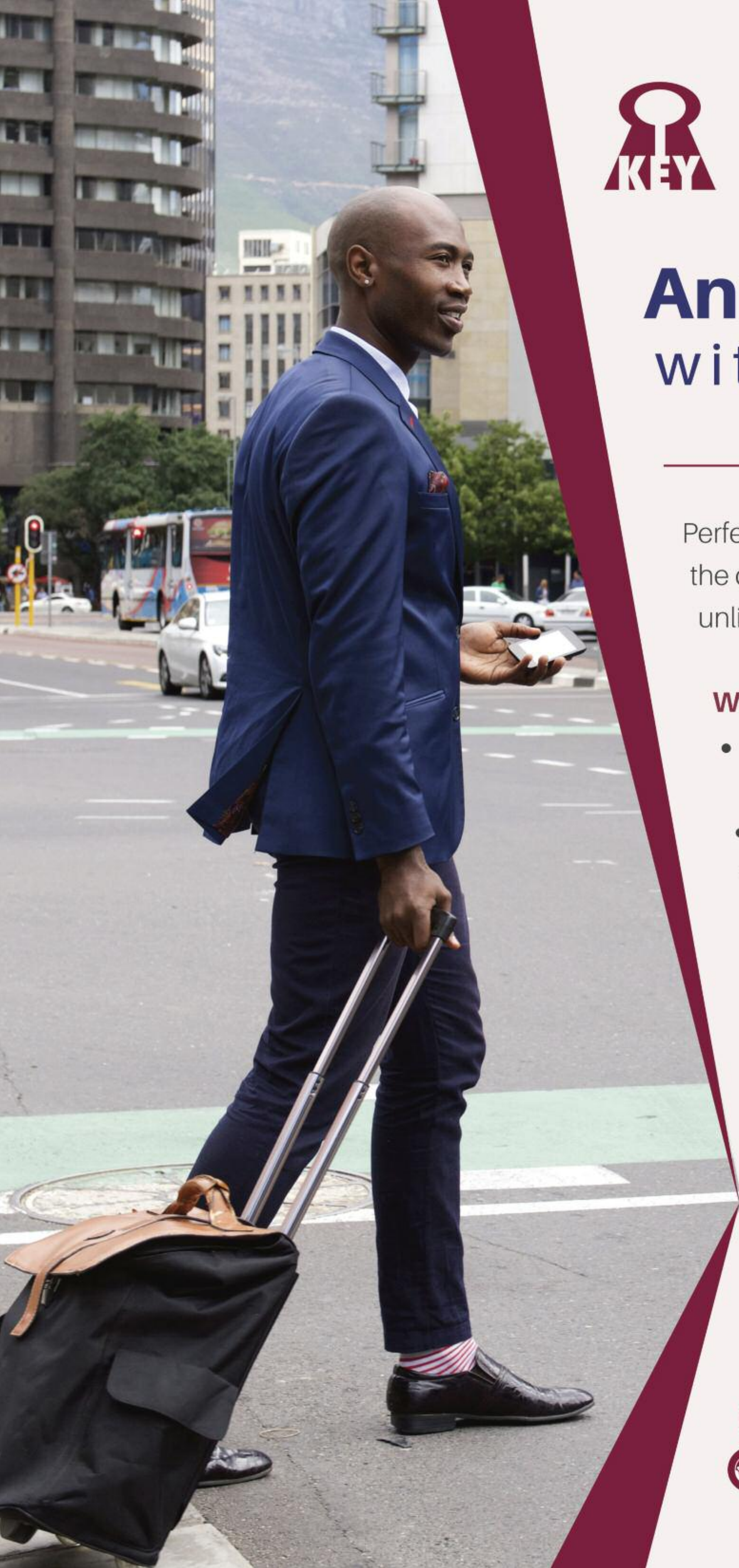
as my/our proxy to vote for me/us on my/our behalf, at the Annual General Meeting of the Company to be held at The Valencia Suites, Spanish Court Hotel, 16 Worthington Avenue, Kingston 5, on the 26th day of June, 2018, at 4:00 pm. and at any adjournment thereof.

Signed this... day of.......................................20...

....Signature...Signature

NOTE: To be valid:

1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company.
2) If executed by a corporation, this proxy must be sealed. A corporate shareholder may appoint a representative in accordance to the Article of the Company's Articles of Association, instead of appointing a proxy.
3) This Form of Proxy must be received by the Registrar of the Company, 6c Half Way Tree Road Kingston, not less than 48 hours before the time of the meeting.
4) This Form of Proxy should bear stamp duty of $100.00. Adhesive stamps are to be cancelled by theperson signing the proxy.



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*Not subject to Pro Rata Condition of Average
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CONTACT US TODAY

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6C Half Way Tree Road, Kingston, Jamaica
(876) 926-6278

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