# SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

## FINANCIAL STATEMENTS

## YEAR ENDED DECEMBER 31, 2024

KPMG
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INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of Scotia Jamaica Life Insurance Company Limited ("the company"), set out on pages 5 to 80, which comprise the statement of financial position as at December 31, 2024, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2024, and of its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting standards) and in the manners required by the Jamaican Companies Act.

*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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

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

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

*Auditors' 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 auditors' 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 judgement and maintain professional skepticism 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Auditors' Responsibilities for the Audit of the Financial Statements (continued)*

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also *(continued)*:

- 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 auditors' 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 auditors' 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

**Report on Additional Matters 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 maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

KPMG

Chartered Accountants
Kingston, Jamaica

March 26, 2025

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Statement of Profit or Loss and Other Comprehensive Income**
**Year ended December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2024 | 2023 |
|---|---|---|---|
| Insurance revenue | 6 | 3,845,632 | 2,899,753 |
| Insurance service expenses | 9 | ( 944,061) | ( 966,349) |
| Insurance service result before reinsurance held contracts | | 2,901,571 | 1,933,404 |
| Net expenses from reinsurance held contracts | | ( 1,005) | ( 429) |
| **Insurance service result** | | 2,900,566 | 1,932,975 |
| Interest revenue calculated using the effective interest method | 10 | 5,066,984 | 4,362,674 |
| Other interest expense | 10 | ( 36,393) | ( 33,386) |
| Net impairment gain/(loss) on financial assets | 10 | 33,729 | ( 103,098) |
| **Investment return** | | 5,064,320 | 4,226,190 |
| Net finance expenses from insurance contracts | 10 | (2,752,095) | (2,429,998) |
| Net finance income/(expenses) from reinsurance held contracts | 10 | 54 | ( 69) |
| **Net financial result** | | 2,312,279 | 1,796,123 |
| Other income | 7,8 | 408,703 | 173,681 |
| Other operating expenses | 9 | ( 527,480) | ( 482,159) |
| **Profit before taxation** | | 5,094,068 | 3,420,620 |
| **Taxation** | 12 | (1,122,555) | ( 823,099) |
| **Net profit for the year** | | 3,971,513 | 2,597,521 |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Unrealised gains on financial assets at fair value through other comprehensive income | | 828,374 | 1,078,768 |
| Expected credit loss adjustment on other comprehensive income | | ( 35,653) | 100,330 |
| Net finance (expenses)/income from insurance contracts | | ( 239,725) | 911,100 |
| Net finance income from reinsurance contracts | | 203 | - |
| Deferred income tax relating to components of other comprehensive income | | ( 138,300) | ( 522,550) |
| Other comprehensive income for the year, net of tax | 13 | 414,899 | 1,567,648 |
| **Total comprehensive income for the year** | | 4,386,412 | 4,165,169 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Statement of Financial Position**
**December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2024 | 2023 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | | |
| Accounts with parent company | 14 | 15,915,943 | 12,388,278 |
| Certificate of deposit with BOJ-maturing with 90 days from original purchase date | 14 | 3,353,982 | 4,406,573 |
| Financial investments | | | |
| Financial assets at amortized cost | 15 | 4,680,474 | 2,010,945 |
| Financial assets at fair value through other comprehensive income | 15 | 47,706,318 | 45,320,183 |
| Financial assets at fair value through profit or loss | 15 | 353,367 | 1,696,137 |
| Insurance contract assets | 21 | 3,666 | 19,042 |
| Reinsurance held contract assets | 21 | 699 | 1,356 |
| Property and equipment | 18 | 2,689 | 4,793 |
| Intangible assets | 19 | 79,814 | 79,814 |
| Deferred tax asset | 17 | 971,002 | 1,066,591 |
| Taxation recoverable | | 1,048,403 | 1,833,857 |
| Other assets | | 50,047 | - |
| Segregated fund assets | 20 | 1,832,334 | 1,376,491 |
| **Total assets** | | 75,998,738 | 70,204,060 |
| **LIABILITIES** | | | |
| Insurance contract liabilities | 21 | 49,856,188 | 48,918,518 |
| Segregated fund investment contract liabilities | 20 | 1,832,334 | 1,376,491 |
| Reinsurance held contract liabilities | 21 | 478 | 1,426 |
| Sundry liabilities | 16 | 179,359 | 163,658 |
| **Total liabilities** | | 51,868,359 | 50,460,093 |
| **Shareholder's Equity** | | | |
| Share capital | 22 | 2,650,000 | 2,650,000 |
| Cumulative re-measurement result from fair value through other comprehensive income | 23 | ( 551,469) | ( 1,146,010) |
| Retained earnings | | 22,094,327 | 18,122,814 |
| Insurance and reinsurance held finance reserve | 23 | ( 62,479) | 117,163 |
| **Total shareholder's equity** | | 24,130,379 | 19,743,967 |
| **Total liabilities and shareholder's equity** | | 75,998,738 | 70,204,060 |

The financial statements on pages 5 to 80 were approved for issue by the Board of Directors on March 26, 2025 and signed on its behalf by:

Audrey Richards, Director

Debra Lopez-Spence, Director

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Statement of Changes in Shareholders' Equity**
**Year ended December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Share capital (Note 22) | Cumulative re-measurement result from other comprehensive income (Note 23) | Insurance/ reinsurance held finance reserve | Unappropriated profits | Total |
|---|---|---|---|---|---|
| Balance as at 31 December 2022, restated | 2,650,000 | (2,030,333) | (566,162) | 15,525,293 | 15,578,798 |
| Net profit for the year | - | - | - | 2,597,521 | 2,597,521 |
| **Other Comprehensive Income:** | | | | | |
| Insurance finance reserve | - | - | 911,100 | - | 911,100 |
| Unrealized gains on financial assets fair value through Other comprehensive income | - | 1,078,768 | - | - | 1,078,768 |
| Expected credit loss on financial assets fair value through other comprehensive income | - | 100,330 | - | - | 100,330 |
| Deferred income tax related to component other comprehensive income | - | ( 294,775) | (227,775) | - | ( 522,550) |
| **Total Other Comprehensive Income** | - | 884,323 | 683,325 | - | 1,567,648 |
| Total comprehensive income for the year | - | 884,323 | 683,325 | 2,597,521 | 4,165,169 |
| Balance as at 31 December 2023 | 2,650,000 | (1,146,010) | 117,163 | 18,122,814 | 19,743,967 |
| Net profit for the year | - | - | - | 3,971,513 | 3,971,513 |
| **Other Comprehensive Income:** | | | | | |
| Insurance and reinsurance finance reserve | - | - | (239,522) | - | ( 239,522) |
| Unrealized gains on financial assets fair value through other comprehensive income | - | 828,374 | - | - | 828,374 |
| Expected credit loss on financial assets fair value through other comprehensive income | - | ( 35,653) | - | - | ( 35,653) |
| Deferred income tax related to component other comprehensive income | - | ( 198,180) | 59,880 | - | ( 138,300) |
| **Total Other Comprehensive Income** | - | 594,541 | (179,642) | - | 414,899 |
| Total comprehensive income for the year | - | 594,541 | (179,642) | 3,971,513 | 4,386,412 |
| Balance as at 31 December 2024 | 2,650,000 | ( 551,469) | ( 62,479) | 22,094,327 | 24,130,379 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Statement of Cash Flows**
**Year ended December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2024 | 2023 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year | | 3,971,513 | 2,597,521 |
| Items not affecting cash | | | |
| Interest income | | ( 5,066,984) | ( 4,362,674) |
| Amortization of premium discount | | ( 48,619) | 372,553 |
| Fair value adjustment | | ( 151,495) | ( 113,585) |
| Taxation | 12 | 1,122,555 | 823,099 |
| Expected credit loss | | ( 33,729) | 103,098 |
| Depreciation | 18 | 3,567 | 4,674 |
| | | ( 203,192) | ( 575,314) |
| Changes in operating assets and liabilities | | | |
| Taxation recoverable | | 76,945 | ( 874,582) |
| Other assets | | ( 50,047) | 43 |
| Insurance contract asset | | 15,376 | 120,206 |
| Insurance contract liabilities | | 697,857 | 1,434,309 |
| Sundry liabilities | | 15,701 | ( 9,143) |
| | | 552,640 | 95,519 |
| Interest received | | 5,025,709 | 4,368,020 |
| Income tax paid | | ( 456,817) | ( 691,542) |
| Net cash provided by operating activities | | 5,121,532 | 3,771,997 |
| **Cash flows from investing activities** | | | |
| Additions to property and equipment | 18 | ( 1,463) | ( 930) |
| Matured investments | | 5,414,102 | 11,425,783 |
| Purchase of investment securities | | ( 8,035,019) | (11,350,456) |
| Net cash (used in)/provided by investing activities | | ( 2,622,380) | 74,397 |
| Net increase in cash and cash equivalents | | 2,499,152 | 3,846,394 |
| Cash and cash equivalents at beginning of year | | 16,760,750 | 12,914,356 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 14 | 19,259,902 | 16,760,750 |
| **Represented by:** | | | |
| Accounts with parent company | | 15,915,943 | 12,388,278 |
| Deposit with BOJ with maturity date less than 90 days from Issue | | 3,343,959 | 4,372,472 |
| | | 19,259,902 | 16,760,750 |

## 1. Identification, activities and licence

The company is a wholly owned subsidiary of The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada, is the ultimate parent. The registered office of the company is located at Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The company was incorporated in Jamaica on October 26, 1995 and was licensed as an insurance company on January 22, 1998 under the Insurance Act 1971, which was replaced by the Insurance Act 2001 and the Insurance Regulations 2001.

The principal activity of the company is the provision of long term life and health insurance, annuities and pension fund.

## 2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act (“the Act”).

Certain new and amended standards and interpretations came into effect during the current financial year. The company has assessed them and has adopted those which are relevant to its financial statements.

**New and amended standards issued but not yet effective:**

At the date of authorization of these financial statements, certain new and amended standards and interpretations have been issued which were not effective for the current year and which the company has not early-adopted. The company has assessed them with respect to its operations and has determined that the following are relevant:

- IFRS 18 *Presentation and Disclosure in Financial Statements*, is effective for annual reporting periods beginning on or after January 1, 2027. Under current IFRS Accounting Standards, companies use different formats to present their results, making it difficult for investors to compare financial performance across companies. IFRS 18 promotes a more structured income statement. In particular, it introduces a newly defined ‘operating profit’ subtotal and a requirement for all income and expenses to be allocated between three new distinct categories (Operating, Investing and Financing) based on a company’s main business activities.

  All companies are required to report the newly defined ‘operating profit’ subtotal – an important measure for investors’ understanding of a company’s operating results – i.e. investing and financing activities are specifically excluded. This means that the results of equity-accounted investees are no longer part of operating profit and are presented in the ‘investing’ category.

  IFRS 18 also requires companies to analyze their operating expenses directly on the face of the income statement – either by nature, by function or using a mixed presentation. Under the new standard, this presentation provides a ‘useful structured summary’ of those expenses. If any items are presented by function on the face of the income statement (e.g. cost of sales), then a company provides more detailed disclosures about their nature.

## 2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards issued but not yet effective: (continued)**

IFRS 18 requires some 'non-GAAP' measures to be reported in the financial statements. It introduces a narrow definition for management performance measures (MPMs), requiring them to be a subtotal of income and expenses, used in public communications outside the financial statements and reflective of management's view of financial performance. For each MPM presented, companies will need to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under IFRS Accounting Standards.

Companies are discouraged from labelling items as 'other' and will now be required to disclose more information if they continue to do so.

The company is assessing the impact that this standard will have on its future financial statements.

The following new and amended standards and interpretations are not expected to have a significant impact on the company's financial statements:

- Amendments to IAS 21, Lack of Exchangeability

- Amendments to IFRS 9 and IFRS 7, Classification and Measurement of Financial Instruments

- Amendments to IFRS 19, Subsidiaries without Public Accountability: Disclosures

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain investments measured at fair value.

(c) Use of estimates and judgements

The preparation of financial statements to conform to 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. 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 4.

## 3. Summary of material accounting policies

### (a) Annuities

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate.

Benefits are recognised as liabilities until the end of the guaranteed period. These liabilities are increased by credited interest and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss.The annuity fund is included as a part of the liability for incurred claims [note 21] as these are classified as insurance contract liabilities.

## 3. Summary of material accounting policies (continued)

### (b) Revenue recognition

(i) Insurance revenue

*Contracts not measured under the premium allocation approach*

The company recognises insurance revenue as it satisfies its performance obligations – i.e. as it provides services under groups of insurance contracts. This amount represents the total change in the liability for the remaining coverage that relate to services for which the company expects to receive consideration and is comprised of the contractual service margin, changes in the risk adjustment for non-financial risk as well as experience adjustments.

*Contracts measured under the premium allocation approach*

Insurance revenue is the amount of expected premium receipts for providing services in the period.

(ii) Investment income

Investment income is recognised in profit or loss for using the effective interest method. The “effective interest rate” is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss (ECL).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

The ‘amortised cost’ of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating investment income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

## 3. Summary of material accounting policies (continued)

### (b) Revenue recognition (continued)

(ii) Investment income (continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, investment income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of investment income reverts to the gross basis.

Investment income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost.

(iii) Realised gains and losses

Realised gains and losses are recorded in profit or loss and relate to gains and losses on the sale of financial and other assets. This is calculated as the difference between net sales proceeds and the current carrying value and is recorded on the occurrence of the sale transaction.

### (c) Insurance and reinsurance held contracts

(i) Definitions and classifications

Insurance contracts are contracts under which the company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Contracts held by the company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance held contracts. The company does not accept insurance risk from other insurers.

Insurance contracts are classified as direct participation contracts or contracts without direct participation features based on specific criteria. Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts where the return on the underlying items is shared with policyholders.

Underlying items comprise specified portfolios of investment assets that determine amounts payable to policyholders.

The company uses judgement to assess whether the amounts expected to be paid to the policyholders constitute a substantial share of the fair value returns on the underlying items.

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (Continued)**
**December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(i) Definitions and classifications (continued)

Some of these contracts are measured under the Premium Allocation Approach (PAA). Refer to the below table for the type of contracts that the company accounts for in accordance with IFRS 17 Insurance Contracts.

| Contracts Issued | Product | Product classification | Portfolio | Measurement Model |
|---|---|---|---|---|
| Whole life insurance contracts | Life Shelter<br>Lifetime Security<br>Solace | Insurance contracts without direct participation features | Individual Life | GMM |
| Universal life insurance contracts | ScotiaMint | Insurance contracts without direct participation features | Individual Savings & Wealth | GMM |
| Universal life insurance contracts | Affirm<br>Elevate | Insurance contracts with direct participation features | Individual Universal Life | VFA |
| Critical illness insurance contracts | Criticare | Insurance contracts without direct participation features | Individual Health | GMM |
| Variable annuity | Scotia Retirement Fund (RIF) | Insurance contracts without direct participation features | Individual Annuity | GMM |
| Group creditor level premium | Creditor Life Non-Revolving level premium | Insurance contracts Measured under the PAA | Group Creditor Combined Level | PAA |
| Group creditor revolving premium | Creditor Life Revolving premium | Insurance contracts Measured under the PAA | Group Creditor Combined Revolving | PAA |
| Group creditor single premium | Creditor Life Non-Revolving single premium | Insurance contracts without direct participation features | Group Creditor Combined Single | GMM |
| Universal life - excess of loss | Affirm | Reinsurance held contract | Individual Universal Life- | GMM |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (Continued)**
**December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(ii) Separating components from insurance and reinsurance held contracts

At inception the company analyzes whether insurance or reinsurance held contracts contain components that should be separated based on the criteria below:

- cash flows relating to embedded derivatives that are required to be separated;
- cash flows relating to distinct investment components; and
- promises to transfer distinct goods or distinct non-insurance services.

The company has not identified any embedded derivatives, distinct investment components, distinct goods or distinct non-insurance services in its insurance or reinsurance held contracts that would require separation from the host contract.

(iii) Aggregation and recognition of insurance and reinsurance held contracts

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

The company uses reasonable and supportable information available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous.

An insurance contract issued by the company is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the company provides services in respect of any premiums within the boundary of the contract);

- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and

- when facts and circumstances indicate that the contract is onerous.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Reinsurance held contracts

A group of reinsurance held contracts that covers aggregate losses from underlying contracts in excess of a specified amount is recognised at the beginning of the coverage period of that group.

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(iii) Aggregation and recognition of insurance and reinsurance contracts (continued)

Portfolios of reinsurance held contracts are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance held contracts, the company aggregates reinsurance held contracts concluded within a calendar year (annual cohorts) into groups of:

- contracts for which there is a net gain at initial recognition, if any;
- contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently; and
- remaining contracts in the portfolio, if any.

(iv) Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method for products measured under the General Measurement Model (GMM) and Variable Fee Approach (VFA).

When applying IFRS 17, the company assumes that insurance acquisition costs are incurred at contract recognition and the acquisition cash flows incurred in each reporting period would relate to contracts issued in the period.

As a result, the company does not recognize an asset for insurance acquisition cash flows.

(v) Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

Insurance contracts

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums, or the company has a substantive obligation to provide the policyholder with insurance coverage or other services.

A substantive obligation to provide services ends when:

– the company has the practical ability to reassess the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or

– the company has the practical ability to reassess the risks of a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio and the pricing of premiums related to coverage to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

**3. Summary of material accounting policies (continued)**

**(c) Insurance and reinsurance held contracts (continued)**

(v) Contract boundaries (continued)

In assessing the practical ability to reprice, risks transferred from the policyholder to the company, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included.

Reinsurance held contracts

For groups of reinsurance held contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations of the company that exist during the reporting period in which the company is compelled to pay amounts to the reinsurer or in which the company has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to it and can reprice or change the level of benefits that fully reflects those reassessed risks; or has a substantive right to terminate the coverage.

The contract boundary is reassessed at each reporting period to include the effect of changes in circumstances on the company's substantive rights and obligations and, therefore, may change over time.

(vi) Measurement – Contracts not measured under the Premium Allocation Approach (PAA)

**Insurance contracts – without direct participation features**

On initial recognition, the company measures a group of insurance contracts as the total of:

(a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and

(b) the contractual service margin (CSM).

The fulfilment cash flows of a group of insurance contracts do not reflect the company's non-performance risk.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the company fulfils insurance contracts.

Contractual service margin (CSM)

The CSM of a group of insurance contracts represents the unearned profit that the company expects to recognize in the future as it provides services under those contracts.

On initial recognition of a group of insurance contracts, if the total of the fulfillment cash flows, any derecognized assets for insurance acquisition cash flows, and any cash flows arising at that date is a net inflow, the group of contracts is non-onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no net income or expenses arising on initial recognition.

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(vi) Measurement– Contracts not measured under the Premium Allocation Approach (PAA) (continued)

**Insurance contracts – without direct participation features (continued)**

Insurance contracts – Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims.

The liability for remaining coverage comprises the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and any remaining CSM at that date.

The liability for incurred claims includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, and claims that have been incurred but not yet reported.

Fulfilment cash flows

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows:

| | |
|---|---|
| Changes relating to future service | Adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous) |
| Changes relating to current or past services | Recognised in the insurance service result in profit or loss |
| Effects of the time value of money, financial risk and changes therein on estimated future cash flows | Recognised as insurance finance income or expenses |

The CSM of each group of contracts is calculated at each reporting date as follows:

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

a) the CSM of any new contracts that are added to the group in the year;

b) interest accreted on the carrying amount of the CSM during the year, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;

**3. Summary of material accounting policies (continued)**

**(c) Insurance and reinsurance held contracts (continued)**

(vi) Measurement– Contracts not measured under the Premium Allocation Approach (PAA) (continued)

**Insurance contracts – without direct participation features (continued)**

Insurance contracts – Subsequent measurement (continued)

(c) changes in fulfilment cash flows that relate to future services, except to the extent that:

i. any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised as a loss in profit or loss and creates a loss component (see viii); or
ii. any decreases in the fulfilment cash flows are allocated to the loss component, reversing losses previously recognised in profit or loss (see (viii);
iii. the effect of any currency exchange differences on the CSM; and
iv. the amount recognised as insurance revenue because of the services provided in the year (see viii).

Changes in fulfilment cash flows that relate to future services comprise:

a) experience adjustments arising from premiums received in the year that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;

b) changes in estimates of the present value of future cash flows in the liability for remaining coverage, measured at the discount rates determined on initial recognition, except for those that arise from the effects of the time value of money, financial risk and changes therein;

c) differences between -

i. component expected to become payable in the year, determined as the any investment payment expected at the start of the year plus any insurance finance income or expenses (see viii)) related to that expected payment before it becomes payable; and
ii. the actual amount that becomes payable in the year;

d) differences between any loan to a policyholder expected to become repayable in the year and the actual amount that becomes repayable in the year; and

e) changes in the risk adjustment for non-financial risk that relate to future services

**Insurance contracts with direct participation features**

Direct participating contracts are contracts under which the company's obligation to the policyholder is the net of:

– the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and
– a variable fee for future services provided under the insurance contracts

For insurance contracts under the VFA, the following adjustments relate to future service and thus adjusts the CSM:

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(vi) Measurement– Contracts not measured under the Premium Allocation Approach (PAA) (continued)

**Insurance contracts – with direct participation features (continued)**

– the CSM of any new contracts that are added to the group in the year;
– the change in the amount of the company's share of the fair value of the underlying items, and
– changes in fulfilment cash flows that relate to future services, except to the extent that:

i. a decrease in the amount of the company's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM, giving rise to a loss in profit or loss (included in insurance service expenses) and creating a loss component; or
ii. an increase in the amount of the company's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future services, is allocated to the loss component, reversing losses previously recognised in profit or loss (included in insurance service expenses);

iii. the effect of any currency exchange differences on the CSM; and
iv. the amount recognised as insurance revenue because of the services provided in the year.

(vii) Measurement - Contracts measured under the Premium Allocation Approach (PAA)

The company uses the PAA to simplify the measurement of groups of contracts at inception when the coverage period of each contract in the group is one year or less.

On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured as the premiums received. The company expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the company has chosen not to adjust the liability for remaining coverage and liability for incurred claims to reflect the time value of money and the effect of financial risk. The company has chosen to expense insurance acquisition cash flows when they are incurred.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and decreased by the amount recognised as insurance revenue for services provided.

(viii) Reinsurance held contracts

To measure a group of reinsurance held contracts, the company applies the same accounting policies as are applied to insurance contracts without direct participation features.

On initial recognition for a group of reinsurance held contracts, requirements remain consistent with the General Measurement Model with respect to the calculation of the CSM and the determination of the coverage units. The CSM of a group of reinsurance held contracts represents a net cost or net gain on purchasing reinsurance.

The total number of coverage units in a group is the quantity of coverage provided by the contracts in the group over the expected coverage period. The coverage units are determined at each reporting period-end prospectively by considering:

a) the quantity of benefits provided by contracts in the group;
b) the expected coverage duration of contracts in the group; and

**3. Summary of material accounting policies (continued)**

**(c) Insurance and reinsurance held contracts (continued)**

(viii) Reinsurance held contracts held (continued)

c) the likelihood of insured events occurring, only to the extent that they affect the expected duration of contracts in the group.

The company measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting period and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the company to the reinsurer.

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the year, adjusted for:

– the CSM on any new contracts that are added to the group in the year;
– interest accreted on the carrying amount of the CSM during the year, measured at the discount rates on nominal cash flows that do not vary based on the returns on any underlying items determined on initial recognition;
– income recognised in profit or loss in the year on initial recognition of onerous underlying contracts;
– reversals of a loss-recovery component to the extent that they are no changes in the fulfilment cash flows on the group of reinsurance held contracts;
– changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless they result from changes in fulfilment cash flows on onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust the loss-recovery component;
– the amount recognised in profit or loss because of the services received in the year.

(ix) Derecognition and contract modification

The company derecognizes insurance contracts when:

- The rights and obligations relating to the contract are extinguished, or
- The contract is modified such that the modification results in a change in the measurement model, or the applicable standard for measuring a component of the contract. In such cases, the company derecognises the initial contract and recognises the modified contract as a new contract.

On derecognition of a contract from within a group of contracts not measured under the PAA:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group.

**3. Summary of material accounting policies (continued)**

**(b) Insurance and reinsurance held contracts (continued)**

(ix) Derecognition and contract modification (continued)

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the company entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the company received the premium that it would have charged less any additional premium charged for the modification.

(x) Presentation

The company has presented separately in the statement of financial position the carrying amount of portfolios of insurance contracts that are assets and those that are liabilities, and the portfolios of reinsurance held contracts held that are assets and those that are liabilities.

The company disaggregates amounts recognised in the statement of revenue and expenses and OCI into:

a) Net insurance revenue, comprising insurance revenue and insurance service expenses; and
b) Insurance/reinsurance held finance expenses

Income and expenses from reinsurance held contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance held contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance held contracts' in the insurance service result.

The company does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue

The company's insurance revenue depicts the provision of services arising from a group of insurance contracts at an amount that reflects the consideration to which the company expects to be entitled in exchange for those services.

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred and include incurred claims, amortisation of acquisition cashflows, losses on onerous contracts and reversals of such losses and adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

Net expenses from reinsurance held contracts

Net expenses from reinsurance held contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

## 3. Summary of material accounting policies (continued)

### (c) Insurance and reinsurance held contracts (continued)

(x) Presentation (continued)

Insurance finance income and expenses

Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance held contracts arising from the effects of the time value of money, financial risk and changes therein. The company has chosen to disaggregate insurance finance income or expenses between the statements of revenue and expenses and OCI. The amount included in profit or loss is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts using the crediting rate approach.

Amounts presented in OCI are accumulated in the insurance finance reserve.

### (d) Taxation

Taxation on the profit or loss for the year comprises of current and deferred taxes. Current and deferred taxes are recognised as tax expense or benefit in determining profit or loss and where they relate to items recorded in shareholders' equity, they are charged or credited as other comprehensive income.

(i) Current taxation

Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred tax

Deferred tax liabilities and assets are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

## 3. Summary of material accounting policies (continued)

### (e) Financial assets and liabilities

Financial assets comprise of cash resources, investment securities and other assets. Financial liabilities comprise of insurance contract liabilities, policy loans and other liabilities.

*Recognition*

The company initially recognises loans and receivables and certificate of deposits on the date at which it becomes a party to the contractual provisions of the instrument, i.e., the date that they are originated. All other financial assets and liabilities, including derivatives, are initially recognized on the trade date at which the company becomes a party to the contractual provisions of the instrument

**Classification and measurement**

*Classification and measurement of financial assets*

Financial assets are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);
- Designated at FVTPL.

Financial assets includes debt instruments.

*Debt instruments*

Debt instruments, including loans securities, are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL); or
- Designated at FVTPL.

Classification of debt instruments is determined based on:

(i) The business model under which the asset is held; and
(ii) The contractual cash flow characteristics of the instrument.

## 3. Summary of material accounting policies (continued)

### (e) Financial assets and liabilities (continued)

**Classification and measurement (continued)**

*Business model assessment*

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The company's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale. The company assesses business model at a portfolio level reflective of how the company's assets are managed together to achieve a particular business objective. For the assessment of a business model, the company takes into consideration the following factors:
  - How the performance of assets in a portfolio is evaluated and reported to company heads and other key decision makers within the company's business lines;
  - How compensation is determined for the company's business lines' management that manages the assets;
  - Whether the assets are held for trading purposes i.e., assets that the company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
  - The risks that affect the performance of assets held within a business model and how those risks are managed; and
  - The frequency and volume of sales in prior periods and expectations about future sales activity.

*Contractual cash flow characteristics assessment*

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortisation of premium/discount.

## 3. Summary of material accounting policies (continued)

### (e) Financial assets and liabilities (continued)

**Classification and measurement (continued)**

*Contractual cash flow characteristics assessment (continued)*

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If the company identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

*Debt instruments measured at amortised cost*

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the Statement of Financial Position.

*Debt instruments measured at FVOCI*

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognised in Non-Interest Income in the Statement of Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-Interest Income in the Statement of Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the Statement of Comprehensive Income. Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to Interest income in the Statement of Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Comprehensive Income upon derecognition of the debt instrument.

**3. Summary of material accounting policies (continued)**

**(e) Financial assets and liabilities (continued)**

**Classification and measurement (continued)**

Debt *instruments measured at FVTPL*

Debt instruments are measured at FVTPL if assets:
(i) Are held for trading purposes;
(ii) Are held as part of a portfolio managed on a fair value basis; or
(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognised immediately in the Statement of Comprehensive Income. Realised and unrealised gains and losses are recognised in the Statement of Comprehensive Income.

*Debt instruments designated at FVTPL*

Financial assets classified in this category are those that have been designated by the company upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in Non-Interest Income in the Statement of Comprehensive Income.

*Determination of fair value*

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the company has access at the measurement date.

The company values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments in active markets represents a Level 1 valuation. When quoted market prices are not available, the company maximizes the use of observable inputs within valuation models. When all significant inputs are market observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

Inception gains and losses are only recognised where the valuation is dependent only on observable market data, otherwise, they are deferred and amortised over the life of the related contract or until the valuation inputs become observable.

## 3. Summary of material accounting policies (continued)

### (e) Financial assets and liabilities (continued)

**Classification and measurement (continued)**

*Determination of fair value (continued)*

IFRS 13 permits a measurement exception that allows an entity to determine the fair value of a company of financial assets and liabilities with offsetting risks based on the sale or transfer of its net exposure to a particular risk (or risks). The company has adopted this exception through an accounting policy choice. Consequently, the fair value of certain portfolios of financial instruments are determined based on the net exposure of those instruments to particular market, credit or funding risk.

In determining the fair value for certain instruments or portfolios of instruments, valuation adjustments or reserves may be required to arrive at a more accurate representation of fair value. These adjustments include those made for credit risk, bid-offer spreads, unobservable parameters, constraints on prices in inactive or illiquid markets and when applicable funding costs.

### (f) Expected credit losses

The company applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss:

- Amortised cost financial assets;and
- Debt securities classified as at FVOCI;

*Expected credit loss impairment model*

The company’s allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a (SICR) subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

## 3. Summary of material accounting policies (continued)

### (f) Expected credit losses (continued)

*Measurement of expected credit loss*

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of *these* statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

*Forward-looking information*

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgement.

*Macroeconomic factors*

In its models, the company relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, central-bank interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

*Multiple forward-looking scenarios*

The company determines its allowance for credit losses using four probability-weighted forward-looking scenarios. The company considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts. The company prepares the scenarios using forecasts generated by Scotiabank Economics (SE). The forecasts are created using internal and external models which are modified by SE as necessary to formulate a ‘base case’ view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

## 3. Summary of material accounting policies (continued)

### (f) Expected credit losses (continued)

*Multiple forward-looking scenarios (continued)*

The process involves the development of three additional economic scenarios and consideration of the relative probabilities of each outcome.

The 'base case' represents the most likely outcome and is aligned with information used by the company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

*Assessment of significant increase in credit risk (SICR)*

At each reporting date, the company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR on non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

The company uses a risk rating scale (IG codes) for its exposures. All exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

*Expected life*

When measuring expected credit loss, the company considers the maximum contractual period over which the company is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the company is exposed to credit risk and how the credit losses are mitigated by management actions.

## 3. Summary of material accounting policies (continued)

### (f) Expected credit losses (continued)

*Presentation of allowance for credit losses in the Statement of Financial Position*

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets; and
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

*Modified financial assets*

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognised. Where a modification does not result in derecognition, the date of origination continues to be used to determine (SICR). Where a modification results in derecognition, the new financial asset is recognised at its fair value on the modification date. The modification date is also the date of origination for this new asset.

*Definition of default*

The company considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganisation;and
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The company considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

*Write-off policy*

The company writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security.

### (g) Impairment of non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

## 3. Summary of material accounting policies (continued)

### (g) Impairment of non-financial assets (continued)

(i) Calculation of recoverable amount:

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (h) Segregated funds

Segregated fund assets and investment contract liabilities arise from contracts where all financial risks associated with the related assets are borne by policyholders and are presented separately on the Balance Sheet. The assets and liabilities are set equal to the fair value of the underlying asset portfolio. Investment return and changes in fair value of the segregated fund assets are offset by a corresponding change in the segregated fund investment contract liabilities.

### (i) 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 embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

## 3. Summary of material accounting policies (continued)

### (j) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity" in this case, the company).

(a) A person or a close member of that person's family is related to the company if that person:

- (i) has control or joint control over the company;
- (ii) has significant influence over the company; or
- (iii) is a member of the key management personnel of the company or of a parent of the company.

(b) An entity is related to the company if any of the following conditions applies:

- (i) The entity and the company are members of the same company (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a company of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan established for the benefit of employees of either the company or an entity related to the company.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a company which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

### (k) Pension scheme

The company participates in a defined benefit pension plan of its parent company. The company's contribution to the scheme is fixed. Once the contributions have been paid, the company has no further legal or constructive obligations (note 24).

## 3. Summary of material accounting policies (continued)

### (l) Cash resources

For the purpose of the cash flow statement, cash and cash equivalents include cash and bank balances and highly liquid financial assets with original maturities of less than 90 days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### (m) Dividends

Dividends on ordinary shares are recognised in shareholders' equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

### (n) Fiduciary activities

The company acts as an administrator of an approved retirement scheme and therefore manages assets on behalf of plan members. These assets are unitised and income earned belongs to the plan members with the company incurring no risk.

Therefore, these assets are segregated and presented separately from these financial statements. Income earned from management fees is included in fee and commission income in profit or loss.

## 4. Critical accounting estimates and judgments in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### *i. Insurance contract* cash flows, valuation

#### *(a) Fulfilment cash flows*

The fulfilment cash flows of groups of insurance contracts are measured at the reporting date and include;

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### *i.* ***Insurance contract*** **cash flows, valuation (continued)**

#### *(a) Fulfilment cash flows (continued)*

The company's objective is to estimate future cash flows and to determine their expected values considering the full range of possible outcomes. The cash flows are discounted and weighted by the estimated probability of that outcome to derive an expected present value.

*Estimates of future cash flows*

In estimating future cash flows, the company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the company's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and establishing a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include:

- claims handling, maintenance and administration costs;
- recurring commissions payable on instalment premiums receivable within the contract boundary;
- costs that the company will incur in providing investment services;
- costs that the company will incur in performing investment activities to the extent that the company performs them to enhance benefits from insurance coverage for policyholders by generating an investment return from which policyholders will benefit if an insured event occurs; and
- income tax and other costs specifically chargeable to the policyholders under the terms of the contracts.

Policyholder behaviour is a key assumption in the measurement of insurance contracts. Each type of policyholder behaviour is estimated by product type based on trends in recent experience. The following table sets out the assumptions about surrender rates (expressed as weighted averages) by policy anniversary for all portfolios:

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### i. *Insurance contract* cash flows, valuation (continued)

#### *(a) Fulfilment cash flows (continued)*

*Estimates of future cash flows (continued)*

| | 2024 | | | | | 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 year | 5 years | 10 years | 15 years | 20 years | 1 year | 5 years | 10 years | 15 years | 20 years |
| **Portfolio** | | | | | | | | | | |
| Individual Savings and Wealth | 11.0% | 9.0% | 6.0% | 5.0% | 4.0% | 11.0% | 9.0% | 5.5% | 4.5% | 4.0% |
| Individual Universal Life | 13.9% | 8.5% | 4.9% | 4.9% | 4.9% | 13.6% | 8.3% | 3.8% | 3.8% | 3.8% |

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows are attributed to acquisition activities, fulfilment activities and other activities using activity-based costing techniques. Cash flows attributable to acquisition and fulfilment activities are allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics. The company generally allocates insurance acquisition cash flows to groups of contracts based on the total premiums for each group, claims handling costs based on the number of claims for each group, and maintenance and administration costs based on the number of in-force contracts within each group. Other costs are recognised in profit or loss as they are incurred.

*Contract boundaries*

The assessment of the contract boundary, which defines which future cash flows are included in the measurement of a contract, requires judgement and consideration of the company's substantive rights and obligations under the contract.

*Insurance contracts*

Long term insurance contracts issued by the company do not have renewable terms consequently all related cash flows fall within the contract boundary.

*Reinsurance held contracts*

The company's reinsurance held contract has an annual term and covers claims from underlying contracts incurred within the year (i.e. loss occurring). Cash flows within the contract boundary are those arising from underlying claims which incurred during the year.

Life risk, life savings and participating contracts

The assumptions for long term insurance contracts used in estimating future cash flows are developed by product type, and reflect recent experience and the characteristics of policyholders within a group of insurance contracts.

Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made based on recent experience and market conditions. These form the assumptions used for determining the expected cash flows at the inception of the contract. New estimates are made each year based on updated experience studies and economic forecasts.

For universal life contracts, crediting rates and discount rates (see 'Discount rates' below), are key assumptions in contract measurement. Future crediting rates are estimated based on the actual rates applied in the current year and current market conditions. The crediting rates applied vary between products.

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### i. *Insurance contract* cash flows, valuation (continued)

#### *(b) Discount rates*

The IFRS17 discount curve is developed using the bottom-up approach. Inputs from both internal and external resources are used. The market risk-free spot curve is reviewed and updated quarterly to facilitate alignment with the current market environment. The parameters used to develop the final discount rates (e.g. ultimate rate, illiquidity premium and convergence period) represent our long-term expectations and should therefore be less sensitive to market fluctuations. These assumptions are reviewed at least annually but may be updated more frequently if the company's actuaries determine that a material change in circumstances has occurred.

The risk-free spot yield curve is internally developed utilising indicative yields and actual trades of Government of Jamaica (GOJ) bonds. The curve is generated monthly and provides rates up to 30 years. The risk-free spot yield curve used to develop the IFRS17 discount curve is updated quarterly. Although the internally developed risk-free curve generates rates up to 30 years, there are many months in which rates for the longer tenors are unavailable due to a lack of recent trades. As such, the last observable point chosen was 20 years, in line with the longest tenor at which the curve is consistently generated. Most of the market activity is expected to occur at tenors less than or equal to 20 years.

The ultimate risk-free forward rate was developed considering real GDP growth rates (as reported by STATIN) and the Bank of Jamaica's (BOJ's) inflation target rate. This methodology is aligned with the Canadian Institute of Actuaries Educational Note "IFRS17 Discount Rates for Life and Health Insurance Contracts" (CIA Ed Note). In this regard, a real GDP growth rate of 1.6% and a target inflation rate of 5% was used, leading to an ultimate forward rate of 6.60%.

Linear interpolation was used for points between the last observable point (20 years) and the ultimate period (30 years). Given the limited data and market activity, a full reference curve was not developed to determine the illiquidity premium. Instead, historical mortgage rates were used to develop an ultimate reference point. The ultimate reference point was 8.1% as at December 31, 2024, in line with historical mortgage rates observed over the last 10 years. The difference between the ultimate reference point and the ultimate risk-free point was assumed to include both an illiquidity premium and a credit risk premium. Using the considerations above, the ultimate illiquidity premium as at December 31, 2024 was determined to be 0.75% above the ultimate risk-free rate.

We assumed that the illiquidity premiums are 75bps above the risk-free rates for all tenors. The level of illiquidity in each product was assessed using the exit cost, exit value and inherent value. The products were then put in buckets based on this assessment (0%, 50% or 100% illiquidity premium).

The tables below set out the yield curves used to discount the cash flows of insurance contracts for major currencies.

| | 2024 | | | | | 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 year | 5 years | 10 years | 20 years | 30 years | 1 year | 5 years | 10 years | 20 years | 30 years |
| Individual life | 7.0% | 7.3% | 8.3% | 12.5% | 13.6% | 7.9% | 8.1% | 8.9% | 12.2% | 12.9% |
| Individual Health | 7.0% | 7.3% | 8.3% | 12.5% | 13.6% | 7.9% | 8.1% | 8.9% | 12.2% | 12.9% |
| Group Creditor Combined Single | 6.6% | 6.9% | 7.9% | 12.2% | 13.2% | 7.5% | 7.7% | 8.4% | 11.5% | 12.1% |
| Individual Savings and Wealth | 6.6% | 6.9% | 7.9% | 12.2% | 13.2% | 7.5% | 7.7% | 8.4% | 11.5% | 12.1% |
| Individual Universal Life | 6.6% | 6.9% | 7.9% | 12.2% | 13.2% | 7.5% | 7.7% | 8.4% | 11.5% | 12.1% |

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### i. *Insurance contract* cash flows, valuation (continued)

#### (c) *Risk adjustments for non-financial risk*

Risk adjustments for non-financial risk are determined to reflect the compensation that the entity requires for bearing non-financial risk, separately for the non-life and other contracts, and are allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the entity, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion, and the effects of the diversification benefits are determined using a correlation matrix technique.

The risk adjustments for non-financial risk are determined using a margin approach which assigns a risk margin to individual risks based on the company's experience for each portfolio.

Risk adjustment for non-financial risk for individual life, individual health, individual savings and wealth, individual universal life, group creditor combined level, group creditor combined single and group creditor combined revolving portfolios corresponds to the following confidence levels:

| | 2024 | 2023 |
|---|---|---|
| Insurance contracts | 90.2% | 85.2% |

#### (d) *Contractual service margin*

**Determination of coverage units**

The amortization of the CSM of a group of contracts is recognised in the profit or loss to reflect services provided in each year based on the number of coverage units provided in the year, which is determined by considering for each contract the quantity of the benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date.

The company determines the quantity of the benefits provided under each contract as follows:

| Product | Basis for determining quantity of benefits provided |
|---|---|
| Group Creditor Combined Single | Outstanding Loan Balance |
| Individual Universal Life | Level Death Benefit Option: Max(Face Amount, Policy Fund Value)<br>Increasing Death Benefit Option: Face Amount + Policy Fund Value |
| Individual Health | Face Amount |
| Individual Life | Face Amount |
| Individual Life Savings and Wealth | Basic Face Amount + Fund Value - Outstanding Loan Balance |
| Individual Annuities | Annuity Payout |

An analysis of the expected timing of the allocation of the CSM to profit or loss is disclosed in note 21(c).

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### i. *Insurance contract* cash flows, valuation (continued)

#### *(e) Investment components*

The company identifies the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance. These include both circumstances in which an insured event occurs as well as those where the contract matures or is terminated without an insured event occurring. Investment components are excluded from insurance revenue and insurance service expenses.

Universal life and non-participating whole-life contracts have explicit surrender values. The investment component excluded from insurance revenue and insurance service expenses is determined as the surrender value specified in the contractual terms less any accrued fees and surrender charges.

The company's other contracts do not contain investment components.

#### *(f) Judgements*

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

(i) Classification of financial assets

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(ii) Impairment of financial assets

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires judgement.

#### *(g) Key assumptions concerning the future and other sources of estimation uncertainty*:

(i) Allowance for impairment losses

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimates the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainty inherent in such estimates.

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 4. Critical accounting estimates and judgments in applying accounting policies (continued)

### i. *Insurance contract* cash flows, valuation (continued)

#### (g) *Key assumptions concerning the future and other sources of estimation uncertainty (continued)*:

(ii) Fair value of financial instruments

There are no quoted market prices for a significant portion of the company's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as Level 2 in the fair value hierarchy. The estimates of fair value arrived at from these sources may be different from the actual price of the instrument in an actual arm's length transaction [see note 26].

## 5. Responsibilities of the appointed actuary and external 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 policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation, the Appointed Actuary estimates the future cashflows as well as a range of expected values that reflect possible outcomes. These cashflows are discounted and weighted by their probabilities in determining the present value estimate of the company's liabilities. An actuarial valuation is prepared annually.

The shareholders, pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the Auditors also make use of the work of the Appointed Actuary and her report on the insurance contract liabilities.

## 6. Insurance revenue

| | 2024 | 2023 |
|---|---|---|
| **Contracts not measured under the PAA** | | |
| Amounts relating to changes in liabilities for remaining coverage | | |
| - CSM recognised for insurance services provided | 1,537,707 | 733,392 |
| - Change in risk adjustment for non-financial risk for risk expired | 212,603 | 201,069 |
| - Expected incurred claims and other insurance service expenses | 882,488 | 877,626 |
| - Other- Premium accrual reversal | | |
| Recovery of insurance acquisition cash flows | 161,515 | 120,598 |
| | 2,794,313 | 1,932,685 |
| **Contracts measured under the PAA** | 1,051,319 | 967,068 |
| **Total insurance revenue** | 3,845,632 | 2,899,753 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (Continued)**
**December 31, 2024**
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## 7. Fee and commission income, net

| | 2024 | 2023 |
|---|---|---|
| Management and administration fees | 300,793 | 281,409 |
| Investment commissions paid | ( 25,965) | ( 41,112) |
| Other contract fees | 1,297 | 426 |
| | 276,125 | 240,723 |

## 8. Realised gains/(loss), net

| | 2024 | 2023 |
|---|---|---|
| Foreign exchange gain | 205 | 8,182 |
| Gain/(loss) on financial assets FVTPL (Note 10) | 132,373 | ( 75,224) |
| | 132,578 | ( 67,042) |

## 9. Expenses by nature

| | 2024 | 2023 |
|---|---|---|
| Salaries, pension and other staff benefits (Note 11) | 360,658 | 306,135 |
| Technical and support services | 164,755 | 120,250 |
| Property expenses, including depreciation | 24,236 | 24,133 |
| Systems related expenses | 1,810 | 1,631 |
| Transportation and communication | 7,166 | 6,876 |
| Asset tax | 148,143 | 150,299 |
| Professional, legal and consultancy fees | 77,780 | 31,918 |
| Marketing and advertising | 4,490 | 2,962 |
| Stationery | 5,789 | 8,918 |
| Licensing and other regulatory fees | 25,311 | 43,586 |
| Other expenses | 97,644 | 98,829 |
| Insurance claims and benefits | 287,089 | 346,225 |
| Losses on onerous insurance contracts | 105,155 | 186,148 |
| Amortization of insurance acquisition cash flows | 161,515 | 120,598 |
| | 1,471,541 | 1,448,508 |
| **Represented by:** | | |
| Insurance service expenses | 944,061 | 966,349 |
| Other operating expenses | 527,480 | 482,159 |
| | 1,471,541 | 1,448,508 |

Included in professional, legal and consultancy fees is external audit fees. The total audit fees incurred inclusive of the acquisition, maintenance and non-insurance expense portion is $22,119,000 (2023: $18,339,000).

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 10. Net financial result

| | 2024 | | | | |
|---|---|---|---|---|---|
| | Contracts without direct participation features | Contract with direct participation features | Contracts measured under the PAA | Other | Total |
| **Investment return** | | | | | |
| Investment securities | 3,224,284 | 18,981 | 26,031 | 294,937 | 3,564,233 |
| Certificate of deposits with the Bank of Jamaica | 820,904 | - | - | - | 820,904 |
| Other bank balances | 48,673 | - | - | 633,174 | 681,847 |
| Net impairment gain on financial assets | 31,749 | 129 | 198 | 1,653 | 33,729 |
| (Loss)/Gain FVTPL (Note 8) | ( 17,477) | 149,850 | - | - | 132,373 |
| **Total Investment return** | 4,108,133 | 168,960 | 26,229 | 929,764 | 5,233,086 |
| **Net finance expenses from insurance contracts** | | | | | |
| Changes in fair value of underlying items of direct participating contracts | - | 123,428 | - | - | 123,428 |
| Interest accreted | 2,256,115 | - | - | - | 2,256,115 |
| Effects of changes in interest rates and other financial assumptions | 372,552 | - | - | - | 372,552 |
| Effects of changes in interest rates and other financial assumptions OCI | 239,725 | | | | 239,725 |
| Other Interest Expense | - | - | - | 36,393 | 36,393 |
| **Total net finance expenses from insurance contracts** | 2,868,392 | 123,428 | - | 36,393 | 3,028,213 |
| **Net finance expense from reinsurance held contracts** | | | | | |
| Interest accreted | - | ( 54) | - | - | ( 54) |
| The effect of financial risk and changes in financial risk- OCI | - | ( 203) | - | - | ( 203) |
| **Total net finance income from reinsurance contracts** | - | ( 257) | - | - | ( 257) |
| | 1,239,741 | 45,789 | 26,229 | 893,371 | 2,205,130 |
| **Represented by:** | | | | | |
| Amounts recognized in profit or loss | 1,479,466 | 45,586 | 26,229 | 893,371 | 2,444,652 |
| Amounts recognized in OCI | ( 239,725) | 203 | - | - | ( 239,522) |
| | 1,239,741 | 45,789 | 26,229 | 893,371 | 2,205,130 |
| **Insurance finance income and expenses** | | | | | |
| Net finance expenses from insurance contracts | | | | | |
| Recognized in profit or loss | 2,628,667 | 123,428 | - | - | 2,752,095 |
| Recognized in OCI | 239,725 | - | - | - | 239,725 |
| | 2,868,392 | 123,428 | - | - | 2,991,820 |
| Net finance expense from reinsurance held contracts | | | | | |
| Recognized in profit or loss | - | ( 54) | - | - | ( 54) |
| Recognized in OCI | - | ( 203) | - | - | ( 203) |
| | - | ( 257) | - | - | ( 257) |

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 10. Net financial result (continued)

| | 2023 | | | | |
|---|---|---|---|---|---|
| | **Contracts without direct participation features** | **Contract with direct participation features** | **Contracts measured under the PAA** | **Other** | **Total** |
| **Investment return** | | | | | |
| Investment securities | 3,008,376 | 19,427 | 3,710 | 266,789 | 3,298,302 |
| Certificate of deposits with the Bank of Jamaica | 616,252 | - | - | - | 616,252 |
| Other bank balances | 48,453 | - | - | 399,667 | 448,120 |
| Net impairment loss on financial assets | ( 94,036) | ( 607) | ( 116) | ( 8,339) | ( 103,098) |
| (Loss)/Gain FVTPL (Note 8) | ( 95,888) | 20,664 | - | - | ( 75,224) |
| **Total Investment return** | 3,483,157 | 39,484 | 3,594 | 658,117 | 4,184,352 |
| **Net finance expenses from insurance contracts** | | | | | |
| Changes in fair value of underlying items of direct participating contracts | - | 3,183 | - | - | 3,183 |
| Interest accreted | 2,089,427 | - | - | - | 2,089,427 |
| Effects of changes in interest rates and other financial assumptions | 337,388 | - | - | - | 337,388 |
| Effects of changes in interest rates and other financial assumptions OCI | ( 911,695) | 595 | - | - | ( 911,100) |
| Other Interest Expense | - | - | - | 33,386 | 33,386 |
| **Total net finance expenses from insurance contracts** | 1,515,120 | 3,778 | - | 33,386 | 1,552,284 |
| **Net finance expense from reinsurance held contracts** | - | 69 | - | - | 69 |
| | 1,968,037 | 35,637 | 3,594 | 624,731 | 2,631,999 |
| **Represented by:** | | | | | |
| Amounts recognized in profit or loss | 1,056,342 | 36,232 | 3,594 | 624,731 | 1,720,899 |
| Amounts recognized in OCI | 911,695 | ( 595) | - | - | 911,100 |
| | 1,968,037 | 35,637 | 3,594 | 624,731 | 2,631,999 |
| **A. Insurance finance income and expenses** | | | | | |
| Net finance expenses from insurance contracts | | | | | |
| Recognized in profit or loss | 2,426,815 | 3,183 | - | - | 2,429,998 |
| Recognized in OCI | ( 911,695) | 595 | - | - | ( 911,100) |
| | 1,515,120 | 3,778 | - | - | 1,518,898 |
| Net finance expense from reinsurance held contracts | | | | | |
| Recognized in profit or loss | - | 69 | - | - | 69 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (Continued)**
**December 31, 2024**
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## 10. Net financial result (continued)

**B. Represented by:**

| | 2024 | 2023 |
|---|---|---|
| **Interest revenue** | | |
| Interest income investment securities | 3,564,233 | 3,298,302 |
| Certificate of deposits with the Bank of Jamaica | 820,904 | 616,252 |
| Interest on bank account | 681,847 | 448,120 |
| | 5,066,984 | 4,362,674 |

| | 2024 | 2023 |
|---|---|---|
| **Net finance expenses** | | |
| Net impairment gain/(loss) on financial assets | 33,729 | ( 103,098) |
| Net gain/(loss) FVTP&L (note 8) | 132,373 | ( 75,224) |
| Other interest expense | ( 36,393) | ( 33,386) |
| Net finance expense re-insurance liabilities | 54 | ( 69) |
| Net finance expense insurance liabilities | (2,752,095) | (2,429,998) |
| | (2,622,332) | (2,641,775) |
| Recognized in P&L | 2,444,652 | 1,720,899 |

## 11. Salaries, pension contributions and other staff benefits

| | 2024 | 2023 |
|---|---|---|
| Wages and salaries | 276,247 | 229,571 |
| Statutory contributions | 37,325 | 43,809 |
| Other staff benefits | 47,086 | 32,755 |
| | 360,658 | 306,135 |

## 12. Taxation

(a) The tax charge is based on the results for the year, as adjusted for taxation purposes, and is made up as follows:

| | 2024 | 2023 |
|---|---|---|
| Current income tax: | | |
| Income tax at 25% | 1,165,326 | 827,230 |
| Deferred income tax (note 17) | ( 42,771) | ( 4,131) |
| | 1,122,555 | 823,099 |

(b) Reconciliation of effective tax rate:

| | 2024 | 2023 |
|---|---|---|
| Profit before taxation | 5,094,067 | 3,420,620 |
| Tax calculated at 25% | 1,273,517 | 855,155 |
| Adjustment for the effect of: | | |
| Asset tax paid | 37,036 | 37,574 |
| Expenses disallowed/income exempt for tax purposes | ( 145,226) | ( 65,499) |
| Other deferred tax charges and allowances | ( 42,772) | ( 4,131) |
| | 1,122,555 | 823,099 |

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**December 31, 2024**
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## 13. Deferred income tax effects relating to other comprehensive income

| | 2024 | | |
|---|---|---|---|
| | Before tax amount | Tax (expense) | Net of tax |
| Financial assets and insurance reserve carried at fair value through OCI | 553,199 | (138,300) | 414,899 |

| | 2023 | | |
|---|---|---|---|
| | Before tax amount | Tax (expense) | Net of tax |
| Financial assets and insurance reserve carried at fair value through OCI | 2,090,198 | (522,550) | 1,567,648 |

## 14. Cash and cash equivalents

| | 2024 | 2023 |
|---|---|---|
| Cash resources | 19,269,925 | 16,794,851 |
| Cash and cash equivalents is comprised of: | | |
| Certificate of deposit with BOJ-maturing with 90 days from original purchase date | 3,343,959 | 4,372,472 |
| Accounts with parent company | 15,915,943 | 12,388,278 |
| | 19,259,902 | 16,760,750 |
| Accrued interest | 10,023 | 34,101 |
| | 19,269,925 | 16,794,851 |

## 15. Investment securities

| | 2024 | 2023 |
|---|---|---|
| Financial assets at fair value through other comprehensive income: | | |
| Debt securities | 47,044,371 | 44,731,899 |
| Interest receivable | 661,947 | 588,284 |
| | 47,706,318 | 45,320,183 |
| Financial assets at fair value through profit or loss: | | |
| Debt securities | - | 1,317,477 |
| Mutual funds | 353,367 | 326,945 |
| Investments – Fair value through the profit & loss | 353,367 | 1,644,422 |
| Interest receivable | - | 51,715 |
| | 353,367 | 1,696,137 |
| Amortised cost: | | |
| Certificate of deposit with BOJ-maturing in excess of 90 days from original purchase date | 4,680,474 | 2,010,945 |
| | 52,740,159 | 49,027,265 |

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## 15. Investment securities (continued)

| | Financial asset at fair value through other comprehensive income | Financial asset at fair value through profit or loss | Amortised cost | Total |
|---|---|---|---|---|
| December 31, 2022 | 45,544,286 | 1,774,544 | 985,488 | 48,304,318 |
| Purchases | 10,324,999 | - | 1,025,457 | 11,350,456 |
| Maturities | (11,425,783) | - | - | (11,425,783) |
| Amortisation adjustment | ( 372,553) | - | - | ( 372,553) |
| Accrued interest adjustment | ( 18,770) | - | - | ( 18,770) |
| Fair value net gain/(loss) | 1,268,004 | ( 78,407) | - | 1,189,597 |
| December 31, 2023 | 45,320,183 | 1,696,137 | 2,010,945 | 49,027,265 |
| Purchases | 5,365,490 | - | 2,669,529 | 8,035,019 |
| Maturities | ( 4,114,102) | (1,300,000) | - | ( 5,414,102) |
| Amortisation adjustment | 48,619 | - | - | 48,619 |
| Accrued interest adjustment | 73,634 | ( 51,715) | - | 21,919 |
| Fair value net gain | 1,012,494 | 8,945 | - | 1,021,439 |
| December 31, 2024 | 47,706,318 | 353,367 | 4,680,474 | 52,740,159 |

Included in investment securities are Government of Jamaica local registered stocks valued at $90,000 (2023: $90,000) which have been deposited with the Regulator, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations, 2001.

Fair value through profit or loss investments include holdings in Scotia Investments Jamaica Limited funds as follows:

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Units | Unit price | Units | Unit price |
| Premium Growth Fund | 478,925 | 130.7160 | 478,925 | 376.0338 |
| Money Market Fund | 500,000 | 177.4657 | 500,000 | 129.9246 |
| Fixed Income Fund | 485,667 | 421.4014 | 485,667 | 168.6155 |

## 16. Sundry liabilities

| | 2024 | 2023 |
|---|---|---|
| Accrued charges | 85,992 | 87,529 |
| Accrued vacation | 53,745 | 44,598 |
| Statutory deductions | 31,091 | 25,119 |
| Other | 8,531 | 6,412 |
| | 179,359 | 163,658 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

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## 17. Deferred tax asset/(liabilities)

Deferred income taxes are calculated on temporary difference between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. The calculation is made using an applicable tax rate of 25%.

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

| | 2024 | 2023 |
|---|---|---|
| Balance at beginning of year | 1,066,591 | 1,585,020 |
| Recognised in equity | ( 60) | ( 10) |
| Recognised in profit for the year [note 12(a)] | 42,771 | 4,131 |
| Recognised in other comprehensive income: | | |
| FVOCI investments | | |
| fair value re-measurement (note 13) | ( 198,180) | ( 294,775) |
| Net Finance Expense (note 13) | 59,880 | ( 227,775) |
| Balance at end of year | 971,002 | 1,066,591 |

Deferred tax asset and liabilities are attributable to the following items:

| | 2024 | 2023 |
|---|---|---|
| Deferred tax asset: | | |
| Accrued vacation | 13,436 | 11,149 |
| FVOCI investments | 205,600 | 412,694 |
| Accelerated tax depreciation | 1,483 | 708 |
| Expected credit loss adjustment | 21,214 | 20,733 |
| IFRS 17 transition adjustment | 581,762 | 632,329 |
| Other adjustment | - | 12,099 |
| Premium discount | 343,954 | 221,582 |
| Net finance reserve | 20,826 | - |
| Deferred tax onerosity | 30,158 | - |
| | 1,218,433 | 1,311,294 |
| Deferred tax liabilities: | | |
| FVTPL investments | ( 50,842) | ( 48,605) |
| Net finance reserve | - | ( 39,055) |
| Unrealized FX gains | - | ( 1,873) |
| Interest receivable | ( 165,732) | ( 155,170) |
| Deferred tax rate of return | ( 30,857) | - |
| | ( 247,431) | ( 244,703) |
| | 971,002 | 1,066,591 |

The deferred tax charge in determining net profit for the year comprises the following temporary differences:

| | 2024 | 2023 |
|---|---|---|
| Accrued vacation | ( 2,287) | ( 957) |
| Interest receivable | 10,562 | 1,301 |
| Accelerated tax depreciation | ( 775) | ( 177) |
| Expected credit loss adjustment | 8,432 | (25,775) |
| Unrealized FX gains | ( 1,873) | 1,873 |
| Unrealised premiums/discounts on investment securities | (122,372) | 47,685 |
| FVTPL investments | 2,236 | (19,601) |
| IFRS 17 transition/other | 62,607 | ( 8,480) |
| Deferred tax rate of return | 30,857 | - |
| Deferred tax onerosity | ( 30,158) | - |
| | ( 42,771) | ( 4,131) |

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## 18. Property and equipment

| | Leasehold improvements | Computer equipment | Furniture fixtures and equipment | Total |
|---|---|---|---|---|
| Cost: | | | | |
| December 31, 2022 | 7,861 | 50,997 | 38,303 | 97,161 |
| Additions | - | 930 | - | 930 |
| December 31, 2023 | 7,861 | 51,927 | 38,303 | 98,091 |
| Additions | - | 1,463 | - | 1,463 |
| December 31, 2024 | 7,861 | 53,390 | 38,303 | 99,554 |
| Accumulated depreciation: | | | | |
| December 31, 2022 | 7,861 | 44,480 | 36,283 | 88,624 |
| Charge for the year | - | 3,681 | 993 | 4,674 |
| December 31, 2023 | 7,861 | 48,161 | 37,276 | 93,298 |
| Charge for the year | - | 3,629 | ( 62) | 3,567 |
| December 31, 2024 | 7,861 | 51,790 | 37,214 | 96,865 |
| Net book values: | | | | |
| December 31, 2024 | - | 1,600 | 1,089 | 2,689 |
| December 31, 2023 | - | 3,766 | 1,027 | 4,793 |

## 19. Intangible assets

| | Software | Software work in progress | Total |
|---|---|---|---|
| Cost: | | | |
| December 31, 2022, 2023 and 2024 | 8,003 | 79,814 | 87,817 |
| Accumulated depreciation: | | | |
| December 31, 2022, 2023 and 2024 | 8,003 | - | 8,003 |
| Net book values: | | | |
| December 31, 2024 | - | 79,814 | 79,814 |
| December 31, 2023 | - | 79,814 | 79,814 |

## 20. Segregated fund assets & investment contract liabilities

The table below shows a reconciliation of the opening to closing balance for the investment contract liabilities.

| | 2024 | 2023 |
|---|---|---|
| **Segregated fund assets** | | |
| Fixed Income Fund | 653,449 | 492,158 |
| Money Market Fund | 256,362 | 216,227 |
| Growth Fund | 922,523 | 668,106 |
| | 1,832,334 | 1,376,491 |
| **Segregated fund investment contract liabilities** | | |
| Opening balance | 1,376,491 | 1,040,951 |
| Contributions by unit holders | 590,873 | 404,921 |
| Benefits paid | ( 267,083) | ( 131,016) |
| Investment return from underlying assets | 164,335 | 84,199 |
| Asset management fees charged & other expenses | ( 32,282) | ( 22,564) |
| Closing balance | 1,832,334 | 1,376,491 |

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## 20. Segregated fund assets & investment contract liabilities (continued)

In the above reconciliation, the investment return from the underlying assets represent changes in the fair value of the investment contract liabilities due to the changes in market conditions. The amount due to the investors is contractually determined based on the performance of the underlying assets. The effect of this feature on the fair value of the liability is asset-specific performance risk, not credit risk of the liability; accordingly, no amount of fair value gain or loss required an allocation to the OCI.

## 21. Insurance and reinsurance held contracts

| | Contracts without direct participation features | Contracts direct participation features | Contracts measured under the PAA | Total |
|---|---|---|---|---|
| **December 31, 2024** | | | | |
| Insurance contract liabilities | 49,820,593 | 35,366 | 229 | 49,856,188 |
| Insurance contract assets | ( 3,666) | - | - | ( 3,666) |
| Reinsurance held contract assets | 699 | - | - | 699 |
| Reinsurance held contract liabilities | ( 478) | - | - | ( 478) |
| **December 31, 2023** | | | | |
| Insurance contract liabilities | 48,665,248 | 246,720 | 6,550 | 48,918,518 |
| Insurance contract assets | ( 15,482) | ( 3,560) | - | ( 19,042) |
| Reinsurance held contract assets | 1,356 | - | - | 1,356 |
| Reinsurance held contract liabilities | ( 1,426) | - | - | ( 1,426) |

The following table sets out the carrying amounts of insurance and reinsurance held contracts expected to be recovered/(settled) more than 12 months after the reporting date:

| | 2024 | 2023 |
|---|---|---|
| Insurance contract assets | ( 10,200) | ( 20,102) |
| Insurance contract liabilities | 45,949,707 | 44,256,156 |
| Reinsurance contract assets | 197 | - |
| Reinsurance held contract liabilities | - | ( 63) |

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**Notes to the Financial Statements (continued)**
**December 31, 2024**
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## 21. Insurance and reinsurance held contracts (continued)

The following reconciliations show how the net carrying amounts of insurance and reinsurance held contracts in each portfolio changed during the year as a result of cash flows and amounts recognised in the statement of revenue and expenses and OCI. A separate table is used to analyse the movements in the liabilities for remaining coverage and movements in the incurred claims for each portfolio.

(a) *Analysis by remaining coverage and incurred claims*

**Contracts without direct participation features**

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Liabilities for remaining coverage | | | | Liabilities for remaining coverage | | | |
| | Excluding loss component | Loss component | Liability for incurred claims | Total | Excluding loss component | Loss component | Liability for incurred claims | Total |
| Opening assets | (15,482) | - | - | (15,482) | (55,758) | - | - | (55,758) |
| Opening liabilities | 46,819,761 | 224,712 | 1,620,775 | 48,665,248 | 46,763,074 | 184,724 | 1,223,786 | 48,171,584 |
| **Net opening balance** | 46,804,279 | 224,712 | 1,620,775 | 48,649,766 | 46,707,316 | 184,724 | 1,223,786 | 48,115,826 |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | |
| **Insurance revenue** | | | | | | | | |
| Contracts under the fair value transition approach | (1,936,402) | - | - | (1,936,402) | (1,392,751) | - | - | (1,392,751) |
| Other contracts | (688,872) | - | - | (688,872) | (429,108) | - | - | (429,108) |
| | (2,625,274) | - | - | (2,625,274) | (1,821,859) | - | - | (1,821,859) |
| **Insurance service expenses** | | | | | | | | |
| Incurred claims and other insurance service expenses | - | (138,886) | 549,021 | 410,135 | - | (37,196) | 493,536 | 456,340 |
| Amortisation of insurance acquisition cash flows | 110,160 | - | - | 110,160 | 91,329 | - | - | 91,329 |
| Losses and reversal of losses on onerous contracts | - | 164,281 | - | 164,281 | - | 71,155 | - | 71,155 |
| Adjustment to liabilities for incurred claims | - | - | 3,326 | 3,326 | - | - | 8,547 | 8,547 |
| | 110,160 | 25,395 | 552,347 | 687,902 | 91,329 | 33,959 | 502,083 | 627,371 |
| Investment components | (6,020,966) | - | 6,020,966 | - | (5,894,607) | - | 5,894,607 | - |
| **Insurance service result** | (8,536,080) | 25,395 | 6,573,313 | (1,937,372) | (7,625,137) | 33,959 | 6,396,690 | (1,194,488) |
| Net finance expenses from insurance contracts | 2,853,444 | 14,948 | - | 2,868,392 | 1,509,090 | 6,029 | - | 1,515,119 |
| **Total changes in the statement of profit or loss and OCI** | (5,682,636) | 40,343 | 6,573,313 | 931,020 | (6,116,047) | 39,988 | 6,396,690 | 320,631 |
| **Cash flows** | | | | | | | | |
| Premiums received | 6,970,158 | - | 163,730 | 7,133,888 | 6,361,797 | - | 168,933 | 6,530,730 |
| Claims and other insurance service expenses paid, including investment components | - | - | (6,575,819) | (6,575,819) | - | - | (6,168,634) | (6,168,634) |
| Insurance acquisition cash flows | (319,199) | - | - | (319,199) | (210,751) | - | - | (210,751) |
| **Total cash flows** | 6,650,959 | - | (6,412,089) | 238,870 | 6,151,046 | - | (5,999,701) | 151,345 |
| Other changes in the net carrying amount of the insurance contract | 31,418 | - | (34,596) | (3,178) | 40,275 | - | - | 40,275 |
| Policy loans | 449 | - | - | 449 | 21,689 | - | - | 21,689 |
| **Net closing balance** | 47,804,469 | 265,055 | 1,747,403 | 49,816,927 | 46,804,279 | 224,712 | 1,620,775 | 48,649,766 |
| Closing assets | (3,666) | - | - | (3,666) | (15,482) | - | - | (15,482) |
| Closing liabilities | 47,808,135 | 265,055 | 1,747,403 | 49,820,593 | 46,819,761 | 224,712 | 1,620,775 | 48,665,248 |
| **Net closing balance** | 47,804,469 | 265,055 | 1,747,403 | 49,816,927 | 46,804,279 | 224,712 | 1,620,775 | 48,649,766 |

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## 21. Insurance and reinsurance held contracts (continued)

(a) *Analysis by remaining coverage and incurred claims (continued)*

### Contracts with direct participation features

| | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Liabilities for remaining coverage | | | | Liabilities for remaining coverage | | | |
| | Excluding loss component | Loss component | Liability for incurred claims | Total | Excluding loss component | Loss component | Liability for incurred claims | Total |
| Opening assets | ( 3,560) | - | - | ( 3,560) | ( 6,109) | - | - | ( 6,109) |
| Opening liabilities | 12,208 | 220,549 | 13,963 | 246,720 | 92,249 | 107,022 | 6,268 | 205,539 |
| **Net opening balance** | 8,648 | 220,549 | 13,963 | 243,160 | 86,140 | 107,022 | 6,268 | 199,430 |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | |
| **Insurance revenue** | | | | | | | | |
| Contracts under the fair value transition approach | ( 45,164) | - | - | ( 45,164) | ( 41,039) | - | - | ( 41,039) |
| Other contracts | (123,876) | - | - | (123,876) | ( 69,788) | - | - | ( 69,788) |
| | (169,040) | - | - | (169,040) | (110,827) | - | - | (110,827) |
| **Insurance service expenses** | | | | | | | | |
| Incurred claims and other insurance service expenses | - | ( 5,573) | 57,862 | 52,289 | - | ( 5,464) | 42,815 | 37,351 |
| Amortisation of insurance acquisition cash flows | 51,356 | - | - | 51,356 | 29,269 | - | - | 29,269 |
| Losses and reversal of losses on onerous contracts | - | (46,004) | - | ( 46,004) | - | 118,991 | - | 118,991 |
| Adjustment to liabilities for incurred claims | - | - | ( 797) | ( 797) | - | - | ( 383) | ( 383) |
| | 51,356 | (51,577) | 57,065 | 56,844 | 29,269 | 113,527 | 42,432 | 185,228 |
| Investment components | (242,041) | - | 242,041 | - | (497,459) | - | (497,459) | - |
| **Insurance service result** | (359,725) | (51,577) | 299,106 | (112,196) | (579,017) | 113,527 | 539,891 | 74,401 |
| Net finance expenses from insurance contracts | 123,428 | - | - | 123,428 | 3,183 | - | - | 3,183 |
| **Total changes in the statement of profit or loss and OCI** | (236,297) | (51,577) | 299,106 | 11,232 | (575,834) | 113,527 | 539,891 | 77,584 |
| **Cash flows** | | | | | | | | |
| Premiums received | 718,419 | - | - | 718,419 | 701,358 | - | - | 701,358 |
| Claims and other insurance service expenses paid, including investment components | - | - | (297,860) | (297,860) | - | - | (532,196) | (532,196) |
| Insurance acquisition cash flows | (164,239) | - | - | (164,239) | (205,565) | - | - | (205,565) |
| **Total cash flows** | 554,180 | - | (297,860) | 256,320 | 495,793 | - | (532,196) | ( 36,403) |
| Other changes in the net carrying amount of the insurance contract | (475,346) | - | - | (475,346) | 2,549 | - | - | 2,549 |
| **Net closing balance** | (148,815) | 168,972 | 15,209 | 35,366 | 8,648 | 220,549 | 13,963 | 243,160 |
| Closing assets | - | - | - | - | ( 3,560) | - | - | ( 3,560) |
| Closing liabilities | (148,815) | 168,972 | 15,209 | 35,366 | 12,208 | 220,549 | 13,963 | 246,720 |
| **Net closing balance** | (148,815) | 168,972 | 15,209 | 35,366 | 8,648 | 220,549 | 13,963 | 243,160 |

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## 21. Insurance and reinsurance held contracts (continued)

### (a) Analysis by remaining coverage and incurred claims (continued)

### Contracts measured under the PAA

| | 2024 | | | | | 2023 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Liabilities for remaining coverage | | Liabilities for incurred claims | | | Liabilities for remaining coverage | | Liabilities for incurred claims | | |
| | Excluding loss component | Loss component | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Total | Excluding loss component | Loss component | Estimates of present value of future cashflows | Risk adjustment for non-financial risk | Total |
| Opening assets | - | - | - | - | - | (77,382) | - | - | - | (77,382) |
| Opening liabilities | (30,474) | 3,283 | 31,352 | 2,389 | 6,550 | (4,869) | 1,605 | 18,987 | 1,725 | 17,448 |
| **Net opening balance** | (30,474) | 3,283 | 31,352 | 2,389 | 6,550 | (82,251) | 1,605 | 18,987 | 1,725 | (59,934) |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | | | |
| **Insurance revenue** | | | | | | | | | | |
| Contracts under the fair value transition approach | (674,361) | - | - | - | (674,361) | (725,196) | - | - | - | (725,196) |
| Other contracts | (376,947) | - | - | - | (376,947) | (223,486) | - | - | - | (223,486) |
| | (1,051,308) | - | - | - | (1,051,308) | (948,682) | - | - | - | (948,682) |
| **Insurance service expenses** | | | | | | | | | | |
| Incurred claims and other insurance service expenses | - | (1,368) | 203,375 | 1,083 | 203,090 | - | (1,605) | 120,543 | 521 | 119,459 |
| Amortisation of insurance acquisition cash flows | - | - | - | - | - | - | - | - | - | - |
| Losses and reversal of losses on onerous contracts | - | 2,356 | - | - | 2,356 | - | 3,283 | - | - | 3,283 |
| Adjustment to liabilities for incurred claims | - | - | 2,186 | 299 | 2,485 | - | - | 445 | 143 | 598 |
| | - | 988 | 205,561 | 1,382 | 207,931 | - | 1,678 | 120,998 | 664 | 123,340 |
| **Insurance service result** | (1,051,308) | 988 | 205,561 | 1,382 | (843,377) | (948,682) | 1,678 | 120,998 | 664 | (825,342) |
| Net finance expenses from insurance contracts | - | - | - | - | - | - | - | - | - | - |
| **Total changes in the statement of profit or loss and OCI** | (1,051,308) | 988 | 205,561 | 1,382 | (843,377) | (948,682) | 1,678 | 120,998 | 664 | (825,342) |
| **Cash flows** | | | | | | | | | | |
| Premiums received | 1,031,987 | - | - | - | 1,031,987 | 923,077 | - | - | - | 923,077 |
| Claims and other insurance service expenses paid, including investment components | - | - | (192,550) | - | (192,550) | - | - | (108,633) | - | (108,633) |
| **Total cash flows** | 1,031,987 | - | (192,550) | - | 839,437 | 923,077 | - | (108,633) | - | 814,444 |
| Other changes in the net carrying amount of the insurance contract | 1,947 | - | (4,328) | - | (2,381) | 77,382 | - | - | - | 77,382 |
| **Net closing balance** | (47,848) | 4,271 | 40,035 | 3,771 | 229 | (30,474) | 3,283 | 31,352 | 2,389 | 6,550 |
| Closing assets | - | - | - | - | - | - | - | - | - | - |
| Closing liabilities | (47,848) | 4,271 | 40,035 | 3,771 | 229 | (30,474) | 3,283 | 31,352 | 2,389 | 6,550 |
| **Net closing balance** | (47,848) | 4,271 | 40,035 | 3,771 | 229 | (30,474) | 3,283 | 31,352 | 2,389 | 6,550 |

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## 21. Insurance and reinsurance held contracts (continued)

(a) *Analysis by remaining coverage and incurred claims* (continued)

**Reinsurance held contracts**

| | 2024 | | | |
|---|---|---|---|---|
| | Assets for remaining coverage | | | |
| | Excluding loss recovery component | Loss recovery component | Incurred claims component | Total |
| Opening assets | 1,356 | - | - | 1,356 |
| Opening liabilities | (1,583) | 157 | - | (1,426) |
| **Net opening balance** | ( 227) | 157 | - | ( 70) |
| **Changes in the statement of profit or loss and OCI** | | | | |
| **Allocation of reinsurance premiums paid** | (1,303) | - | - | (1,303) |
| **Amounts recoverable from reinsurers** | | | | |
| Recoveries of incurred claims and other insurance service expenses | - | ( 21) | - | ( 21) |
| Recoveries and reversals of recoveries of losses on onerous underlying contracts | - | 218 | - | 218 |
| Changes related to past service (changes related to incurred claims component) | - | - | - | - |
| **Total Amounts Recovered from Reinsurance** | - | 197 | - | 197 |
| Investment components and premium refunds | - | - | - | - |
| Effects of changes in non-performance risk of reinsurers | 101 | - | - | 101 |
| **Net expenses from reinsurance contracts** | (1,202) | 197 | - | (1,005) |
| Net finance income from reinsurance contracts | 253 | 3 | - | 256 |
| **Total changes in the statement of profit or loss and OCI** | ( 949) | 200 | - | ( 749) |
| **Cash flows** | | | | |
| Premiums paid | 1,040 | - | - | 1,040 |
| Amounts received | - | - | - | - |
| **Total cash flows** | 1,040 | - | - | 1,040 |
| **Net closing balance** | ( 136) | 357 | - | 221 |
| Closing assets | 699 | - | - | 699 |
| Closing liabilities | ( 835) | 357 | - | ( 478) |
| **Net closing balance** | ( 136) | 357 | - | 221 |

| | 2023 | | | |
|---|---|---|---|---|
| | Assets for remaining coverage | | | |
| | Excluding loss recovery component | Loss recovery component | Incurred claims component | Total |
| Opening assets | 1,218 | - | - | 1,218 |
| Opening liabilities | (2,194) | 168 | - | (2,026) |
| **Net opening balance** | ( 976) | 168 | - | ( 808) |
| **Changes in the statement of profit or loss and OCI** | | | | |
| **Allocation of reinsurance held premiums paid** | ( 854) | - | - | ( 854) |
| **Amounts recoverable from reinsurers** | | | | |
| Recoveries of incurred claims and other insurance service expenses | - | ( 12) | - | ( 12) |
| Recoveries and reversals of recoveries of losses on onerous underlying contracts | - | 1 | - | 1 |
| Changes related to past service (changes related to incurred claims component) | - | - | - | - |
| **Total Amounts Recovered from Reinsurance held** | - | ( 11) | - | ( 11) |
| Investment components and premium refunds | - | - | - | - |
| Effects of changes in non-performance risk of reinsurers | 436 | - | - | 436 |
| **Net expenses from reinsurance held contracts** | ( 418) | ( 11) | - | ( 429) |
| Net finance income from reinsurance held contracts | ( 664) | - | - | ( 664) |
| **Total changes in the statement of profit or loss and OCI** | (1,082) | ( 11) | - | (1,093) |
| **Cash flows** | | | | |
| Premiums paid | 1,831 | - | - | 1,831 |
| Amounts received | - | - | - | - |
| **Total cash flows** | 1,831 | - | - | 1,831 |
| **Net closing balance** | ( 227) | 157 | - | ( 70) |
| Closing assets | 1,356 | - | - | 1,356 |
| Closing liabilities | (1,583) | 157 | - | (1,426) |
| **Net closing balance** | ( 227) | 157 | - | ( 70) |

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 21. Insurance and reinsurance held contracts (continued)

*(b) Analysis by measurement component – Contracts not measured under the PAA*

**Contracts without direct participation features**

| | 2024 | | | | | | 2023 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contractual Service Margin | | | | | | Contractual Service Margin | | | |
| | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | Other contracts | Subtotal | Total | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | Other contracts | Subtotal | Total |
| Opening assets | (15,482) | - | - | - | - | (15,482) | (55,758) | - | - | - | - | (55,758) |
| Opening liabilities | 42,306,979 | 2,227,768 | 3,518,085 | 612,416 | 4,130,501 | 48,665,248 | 43,844,814 | 1,973,067 | 2,081,443 | 272,260 | 2,353,703 | 48,171,584 |
| **Net opening balance** | 42,291,497 | 2,227,768 | 3,518,085 | 612,416 | 4,130,501 | 48,649,766 | 43,789,056 | 1,973,067 | 2,081,443 | 272,260 | 2,353,703 | 48,115,826 |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | | | | | |
| **Changes that relate to current services** | | | | | | | | | | | | |
| CSM recognised for service provided | - | - | (1,219,099) | (314,175) | (1,533,274) | (1,533,274) | - | - | (525,607) | (202,926) | (728,533) | (728,533) |
| Change in risk adjustment for non-financial risk for risk expired | - | (203,795) | - | - | - | (203,795) | - | (185,042) | - | - | - | (185,042) |
| Experience adjustment | (367,910) | - | - | - | - | (367,910) | (360,614) | - | - | - | - | (360,614) |
| **Changes that relate to future services** | | | | | | | | | | | | |
| Contracts initially recognised in the year | (430,499) | 100,226 | - | 358,675 | 358,675 | 28,402 | (486,749) | 83,720 | - | 406,086 | 406,086 | 3,057 |
| Changes in estimates that adjust the CSM | (4,031,650) | (1,143,475) | 5,016,246 | 158,879 | 5,175,125 | - | (2,069,963) | 99,846 | 1,867,449 | 102,668 | 1,970,117 | - |
| Changes in estimates that result in losses and reversal of losses on onerous contracts | 31,338 | 104,542 | - | - | - | 135,880 | 51,559 | 16,538 | - | - | - | 68,097 |
| **Changes that relate to past services** | | | | | | | | | | | | |
| Adjustments to liabilities for incurred claims | 3,101 | 225 | - | - | - | 3,326 | 7,742 | 805 | - | - | - | 8,547 |
| **Insurance service result** | (4,795,620) | (1,142,277) | 3,797,147 | 203,379 | 4,000,526 | (1,937,371) | (2,858,025) | 15,867 | 1,341,842 | 305,828 | 1,647,670 | (1,194,488) |
| Net finance expenses from insurance contracts | 2,477,867 | 115,733 | 215,467 | 59,324 | 274,791 | 2,868,391 | 1,147,157 | 238,834 | 94,800 | 34,328 | 129,128 | 1,515,119 |
| **Total changes in the statement of profit or loss and OCI** | (2,317,753) | (1,026,544) | 4,012,614 | 262,703 | 4,275,317 | 931,020 | (1,710,868) | 254,701 | 1,436,642 | 340,156 | 1,776,798 | 320,631 |
| **Cash flows** | | | | | | | | | | | | |
| Premiums received | 7,133,888 | - | - | - | - | 7,133,888 | 6,530,730 | - | - | - | - | 6,530,730 |
| Claims and other insurance service expenses paid, including investment components | (6,575,819) | - | - | - | - | (6,575,819) | (6,168,634) | - | - | - | - | (6,168,634) |
| Insurance acquisition cash flows | (319,199) | - | - | - | - | (319,199) | (210,751) | - | - | - | - | (210,751) |
| **Total cash flows** | 238,870 | - | - | - | - | 238,870 | 151,345 | - | - | - | - | 151,345 |
| Other changes in the net carrying amount of the insurance contract | (3,178) | - | - | - | - | (3,178) | 40,275 | - | - | - | - | 40,275 |
| Policy loans | 449 | - | - | - | - | 449 | 21,689 | - | - | - | - | 21,689 |
| **Net closing balance** | 40,209,885 | 1,201,224 | 7,530,699 | 875,119 | 8,405,818 | 49,816,927 | 42,291,497 | 2,227,768 | 3,518,085 | 612,416 | 4,130,501 | 48,649,766 |
| Closing assets | (3,666) | - | - | - | - | (3,666) | (15,482) | - | - | - | - | (15,482) |
| Closing liabilities | 40,213,551 | 1,201,224 | 7,530,699 | 875,119 | 8,405,818 | 49,820,593 | 42,306,979 | 2,227,768 | 3,518,085 | 612,416 | 4,130,501 | 48,665,248 |
| **Net closing balance** | 40,209,885 | 1,201,224 | 7,530,699 | 875,119 | 8,405,818 | 49,816,927 | 42,291,497 | 2,227,768 | 3,518,085 | 612,416 | 4,130,501 | 48,649,766 |

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 21. Insurance and reinsurance held contracts (continued)

### (b) *Analysis by measurement component - Contracts not measured under the PAA (continued)*

**Contracts with direct participation features**

| | 2024 | | | | | | 2023 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contractual Service Margin | | | | | | Contractual Service Margin | | | |
| | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | Other contracts | Subtotal | Total | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | Other contracts | Subtotal | Total |
| Opening assets | ( 3,560) | - | - | - | - | ( 3,560) | ( 6,109) | - | - | - | - | ( 6,109) |
| Opening liabilities | 63,474 | 149,429 | - | 33,817 | 33,817 | 246,720 | 72,754 | 97,087 | - | 35,698 | 35,698 | 205,539 |
| **Net opening balance** | 59,914 | 149,429 | - | 33,817 | 33,817 | 243,160 | 66,645 | 97,087 | - | 35,698 | 35,698 | 199,430 |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | | | | | |
| **Changes that relate to current services** | | | | | | | | | | | | |
| CSM recognised for service provided | - | - | - | ( 4,434) | ( 4,434) | ( 4,434) | - | - | - | ( 4,858) | ( 4,858) | ( 4,858) |
| Change in risk adjustment for non-financial risk for risk expired | - | ( 27,145) | - | - | - | ( 27,145) | - | ( 18,397) | - | - | - | ( 18,397) |
| Experience adjustment | ( 33,817) | - | - | - | - | ( 33,817) | ( 20,953) | - | - | - | - | ( 20,953) |
| **Changes that relate to future services** | | | | | | | | | | | | |
| Contracts initially recognised in the year | (126,377) | 46,752 | - | 83,054 | 83,054 | 3,429 | ( 92,279) | 32,330 | - | 76,077 | 76,077 | 16,128 |
| Changes in estimates that adjust the CSM | 81,761 | ( 3,500) | - | (78,261) | (78,261) | - | 4,391 | 68,709 | - | ( 73,100) | ( 73,100) | - |
| Changes in estimates that result in losses and reversal of losses on onerous contracts | ( 3,891) | ( 45,541) | - | - | - | ( 49,432) | 133,146 | ( 30,282) | - | - | - | 102,864 |
| **Changes that relate to past services** | | | | | | | | | | | | |
| Adjustments to liabilities for incurred claims | ( 649) | ( 148) | - | - | - | ( 797) | ( 365) | ( 18) | - | - | - | ( 383) |
| **Insurance service result** | ( 82,973) | ( 29,582) | - | 359 | 359 | (112,196) | 23,940 | 52,342 | - | ( 1,881) | ( 1,881) | 74,401 |
| Net finance expenses from insurance contracts | 123,428 | - | - | - | - | 123,428 | 3,183 | - | - | - | - | 3,183 |
| **Total changes in the statement of profit or loss and OCI** | 40,455 | ( 29,582) | - | 359 | 359 | 11,232 | 27,123 | 52,342 | - | ( 1,881) | ( 1,881) | 77,584 |
| **Cash flows** | | | | | | | | | | | | |
| Premiums received | 718,419 | - | - | - | - | 718,419 | 701,358 | - | - | - | - | 701,358 |
| Claims and other insurance service expenses paid, including investment components | (297,860) | - | - | - | - | (297,860) | (532,196) | - | - | - | - | (532,196) |
| Insurance acquisition cash flows | (164,239) | - | - | - | - | (164,239) | (205,565) | - | - | - | - | (205,565) |
| **Total cash flows** | 256,320 | - | - | - | - | 256,320 | ( 36,403) | - | - | - | - | ( 36,403) |
| Other changes in the net carrying amount of the insurance contract | (475,346) | - | - | - | - | (475,346) | 2,549 | - | - | - | - | 2,549 |
| **Net closing balance** | (118,657) | 119,847 | - | 34,176 | 34,176 | 35,366 | 59,914 | 149,429 | - | 33,817 | 33,817 | 243,160 |
| Closing assets | - | - | - | - | - | - | ( 3,560) | - | - | - | - | ( 3,560) |
| Closing liabilities | (118,657) | 119,847 | - | 34,176 | 34,176 | 35,366 | 63,474 | 149,429 | - | 33,817 | 33,817 | 246,720 |
| **Net closing balance** | (118,657) | 119,847 | - | 34,176 | 34,176 | 35,366 | 59,914 | 149,429 | - | 33,817 | 33,817 | 243,160 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (continued)**
**December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 21. Insurance and reinsurance held contracts (continued)

### (b) *Analysis by measurement component - Contracts not measured under the PAA (continued)*

### Reinsurance held contracts

| | 2024 | | | | | | 2023 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Contractual Service Margin | | | | | | Contractual Service Margin | | | |
| | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | Other contracts | Subtotal | Total | Estimate of present Value of future cash flow | Risk Adjustment non-financial risk | Contracts under fair value transition approach | other contracts | Subtotal | Total |
| Opening assets | - | 1,356 | - | - | - | 1,356 | - | 1,218 | - | - | - | 1,218 |
| Opening liabilities | (2,461) | 272 | 1,061 | ( 298) | 763 | (1,426) | (1,254) | ( 46) | ( 340) | ( 386) | ( 726) | (2,026) |
| **Net opening balance** | (2,461) | 1,628 | 1,061 | ( 298) | 763 | ( 70) | (1,254) | 1,172 | ( 340) | ( 386) | ( 726) | ( 808) |
| **Changes in the statement of profit or loss and OCI** | | | | | | | | | | | | |
| **Changes that relate to current services** | | | | | | | | | | | | |
| CSM recognised for service provided | - | - | ( 175) | 157 | ( 18) | ( 18) | - | - | ( 129) | 58 | ( 71) | ( 71) |
| Change in risk adjustment for non-financial risk for risk expired | - | ( 151) | - | - | - | ( 151) | - | ( 88) | - | - | - | ( 88) |
| Experience adjustment | (1,154) | - | - | - | - | (1,154) | ( 707) | - | - | - | - | ( 707) |
| **Changes that relate to future services** | | | | | | | | | | | | |
| Contracts initially recognised in the year | 306 | 294 | - | ( 600) | (600) | - | ( 239) | 144 | - | 95 | 95 | - |
| Changes in recoveries of losses on onerous underlying contracts that adjusts the CSM | - | - | ( 209) | ( 71) | (280) | ( 280) | - | - | - | - | - | - |
| Changes in estimates that adjust the CSM | ( 163) | 146 | 596 | ( 579) | 17 | - | (1,696) | 196 | 1,545 | ( 45) | 1,500 | - |
| Changes in estimates that result in losses and reversal of losses on onerous underlying contracts | 1,261 | ( 763) | - | - | - | 498 | 1 | - | - | - | - | 1 |
| **Effect of changes in non-performance risk of reinsurers** | 100 | - | - | - | - | 100 | 436 | - | - | - | - | 436 |
| **Net expense from reinsurance held contracts** | 350 | ( 474) | 212 | (1,093) | (881) | (1,005) | (2,205) | 252 | 1,416 | 108 | 1,524 | ( 429) |
| Net finance income from reinsurance held contracts | 86 | 102 | 80 | ( 12) | 68 | 256 | ( 833) | 204 | ( 15) | ( 20) | ( 35) | ( 664) |
| **Total changes in the statement of profit or loss and OCI** | 436 | ( 372) | 292 | (1,105) | (813) | ( 749) | (3,038) | 456 | 1,401 | 88 | 1,489 | (1,093) |
| **Cash flows** | | | | | | | | | | | | |
| Premiums paid | 1,040 | - | - | - | - | 1,040 | 1,831 | - | - | - | - | 1,831 |
| **Total cash flows** | 1,040 | - | - | - | - | 1,040 | 1,831 | - | - | - | - | 1,831 |
| **Net closing balance** | ( 985) | 1,256 | 1,353 | (1,403) | ( 50) | 221 | (2,461) | 1,628 | 1,061 | ( 298) | 763 | ( 70) |
| Closing assets | - | 699 | - | - | - | 699 | - | 1,356 | - | - | - | 1,356 |
| Closing liabilities | ( 985) | 557 | 1,353 | (1,403) | ( 50) | ( 478) | (2,461) | 272 | 1,061 | ( 298) | 763 | (1,426) |
| **Net closing balance** | ( 985) | 1,256 | 1,353 | (1,403) | ( 50) | 221 | (2,461) | 1,628 | 1,061 | ( 298) | 763 | ( 70) |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (continued)**
**December 31, 2024**
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## 21. Insurance and reinsurance held contracts (continued)

### (c) Analysis by remaining contractual service margins

| | 2024 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less Than 1 Year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | 5-10 years | Over 10 years | Total |
| **Insurance contracts** | | | | | | | | |
| Without direct participation features | 948,942 | 733,213 | 618,872 | 543,216 | 491,587 | 1,931,446 | 3,138,542 | 8,405,818 |
| With direct participation features | 2,117 | 1,827 | 1,602 | 1,428 | 1,278 | 5,152 | 20,772 | 34,176 |
| Total | 951,059 | 735,040 | 620,474 | 544,644 | 492,865 | 1,936,598 | 3,159,314 | 8,439,994 |
| **Reinsurance held contracts** | (34) | (24) | (19) | (13) | (5) | 5 | 40 | (50) |

| | 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less Than 1 Year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | 5-10 years | Over 10 years | Total |
| **Insurance contracts** | | | | | | | | |
| Without direct participation features | 463,903 | 354,620 | 280,098 | 227,106 | 189,514 | 734,048 | 1,881,212 | 4,130,501 |
| With direct participation features | 4,165 | 2,399 | 1,801 | 1,440 | 1,226 | 4,758 | 18,028 | 33,817 |
| Total | 468,068 | 357,019 | 281,899 | 228,546 | 190,740 | 738,806 | 1,899,240 | 4,164,318 |
| **Reinsurance held contracts** | 71 | 55 | 45 | 38 | 32 | 123 | 399 | 763 |

### (d) Effect of contracts initially recognized in the year

The following tables summarize the effect on the measurement components arising from the initial recognition of insurance and reinsurance held contracts not measured under the PAA in the year.

| | 2024 | | |
|---|---|---|---|
| | Profitable contracts issued | Onerous contracts issued | Total |
| **Insurance contracts without direct participation features** | | | |
| Insurance acquisition cash flows | 177,030 | 72,912 | 249,942 |
| Claims and other insurance service expenses payable | 1,087,598 | 347,522 | 1,435,120 |
| Estimates of present value of cash outflows | 1,264,628 | 420,434 | 1,685,062 |
| Estimates of present value of cash inflows | (1,707,975) | (407,586) | (2,115,561) |
| Risk adjustment for non-financial risk | 84,672 | 15,554 | 100,226 |
| CSM | 358,675 | - | 358,675 |
| **Losses recognised on initial recognition** | - | 28,402 | 28,402 |

| | 2023 | | |
|---|---|---|---|
| | Profitable contracts issued | Onerous contracts issued | Total |
| **Insurance contracts without direct participation features** | | | |
| Insurance acquisition cash flows | 145,150 | 26,155 | 171,305 |
| Claims and other insurance service expenses payable | 1,345,549 | 29,168 | 1,374,717 |
| Estimates of present value of cash outflows | 1,490,699 | 55,323 | 1,546,022 |
| Estimates of present value of cash inflows | (1,974,377) | (58,394) | (2,032,771) |
| Risk adjustment for non-financial risk | 77,592 | 6,128 | 83,720 |
| CSM | 406,086 | - | 406,086 |
| **Losses recognised on initial recognition** | - | 3,057 | 3,057 |

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

**Notes to the Financial Statements (continued)**
**December 31, 2024**
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 21. Insurance and reinsurance held contracts (continued)

### (d) Effect of contracts initially recognized in the year (continued)

| | 2024 | | |
|---|---|---|---|
| | Profitable contracts issued | Onerous contracts issued | Total |
| **Insurance contracts with direct participation features** | | | |
| Insurance acquisition cash flows | 138,742 | 7,353 | 146,095 |
| Claims and other insurance service expenses payable | 1,495,201 | 18,559 | 1,513,760 |
| Estimates of present value of cash outflows | 1,633,943 | 25,912 | 1,659,855 |
| Estimates of present value of cash inflows | (1,762,312) | (23,920) | (1,786,232) |
| Risk adjustment for non-financial risk | 45,315 | 1,437 | 46,752 |
| CSM | 83,054 | - | 83,054 |
| **Losses recognised on initial recognition** | - | 3,429 | 3,429 |

| | 2023 | | |
|---|---|---|---|
| | Profitable contracts issued | Onerous contracts issued | Total |
| **Insurance conracts with direct participation features** | | | |
| Insurance acquisition cash flows | 71,846 | 28,074 | 99,920 |
| Claims and other insurance service expenses payable | 956,062 | 63,567 | 1,019,629 |
| Estimates of present value of cash outflows | 1,027,908 | 91,641 | 1,119,549 |
| Estimates of present value of cash inflows | (1,131,645) | (80,183) | (1,211,828) |
| Risk adjustment for non-financial risk | 27,660 | 4,670 | 32,330 |
| CSM | 76,077 | - | 76,077 |
| **Losses recognised on initial recognition** | - | 16,128 | 16,128 |

| | 2024 | | |
|---|---|---|---|
| | Contracts Initiated without loss recovery component | Contracts Initiated with loss recovery component | Total |
| **Reinsurance held contracts** | | | |
| Estimates of present value of cash inflows | 6,038 | - | 6,038 |
| Estimates of present value of cash outflows | (5,732) | - | (5,732) |
| Risk adjustment for non-financial risk | 294 | - | 294 |
| **CSM** | 600 | - | 600 |

| | 2023 | | |
|---|---|---|---|
| | Contracts Initiated without loss recovery component | Contracts Initiated with loss recovery component | Total |
| **Reinsurance held contracts** | | | |
| Estimates of present value of cash inflows | (1,606) | - | (1,606) |
| Estimates of present value of cash outflows | 1,367 | - | 1,367 |
| Risk adjustment for non-financial risk | 144 | - | 144 |
| **CSM** | (95) | - | (95) |

### (e) Claims development

IFRS 17 does not require an entity to disclose claims development information for which uncertainty about the amount and timing of the claims payments is typically resolved within one year.The company does not provide this disclosure because claims amounts are known from the contractual arrangements (i.e. there is no uncertainty with respect to the amount of claims) and claims are settled shortly after the insured event occurs.

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 22. Share capital

| | 2024 | 2023 |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 2,650,000,000 (2023: 2,650,000,000) ordinary shares of no par value | 2,650,000 | 2,650,000 |

## 23. Cumulative re-measurement result from other comprehensive income

This represents the unrealised surplus or deficit on the revaluation of financial assets at fair value through other comprehensive income as follows:

| | 2024 | 2023 |
|---|---|---|
| Balance at beginning of year | (1,028,847) | (2,596,495) |
| Net gains from changes in fair value | 828,374 | 1,078,768 |
| Less: deferred income taxes | ( 207,094) | ( 269,692) |
| | 621,280 | 809,076 |
| Net finance (expenses)/income | ( 239,522) | 911,100 |
| Less: deferred income taxes | 59,881 | ( 227,775) |
| | ( 179,641) | 683,325 |
| Expected credit loss adjustment | ( 35,653) | 100,330 |
| Less: deferred income taxes | 8,913 | ( 25,083) |
| | ( 26,740) | 75,247 |
| Balance at end of year | ( 613,948) | (1,028,847) |

| | 2024 | 2023 |
|---|---|---|
| Cumulative re-measurement result from FVTOCI | ( 551,469) | (1,146,010) |
| Insurance and reinsurance held finance reserve | ( 62,479) | 117,163 |
| | ( 613,948) | (1,028,847) |

## 24. Pension scheme

The company participates in a defined benefit pension plan operated by its parent company, the Bank of Nova Scotia Jamaica Limited (The Bank). The Bank has established a defined benefit pension plan where the assets of the pension scheme are held independently of the Bank's assets in a separate fund administered by Trustees.

The scheme established is valued by independent actuaries annually, using the Projected Unit Credit Method.

The company contributes at a fixed rate of 2% of pensionable earnings. Any funding deficiencies of the plan are absorbed by the Bank. Accordingly, the company is not entitled to any surplus that may arise.

## 24. Pension scheme (Continued)

Benefits to members are based on the final pensionable salary (the average of the best of three consecutive years remuneration, with no salary cap), as follows:

(a) Per year of contributory service – 1¾% of the final pensionable salary

(b) Per year of non contributory service
- 1½% of final pensionable salary for employees who started to contribute on November 1, 1971 and
- 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.

(c) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

The employees contribute at 3% of salary up to $250 per annum, plus 6% of salary thereafter.

## 25. Insurance and financial risk management

### Overview and risk management framework

The company's activities expose it to a variety of insurance and financial risks. These activities involve the analysis, evaluation and management of some degree of risk or combination of risks. Taking these risks 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 manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of the company's business units. The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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

(i) Investment, Loans and Risk Committee

The Investment, Loans and Risk Committee recommends to the Board for its approval a written Investment Policy. The committee reviews investment activities quarterly, and ensures that the existing policies comprehensively deal with the management and diversification of the company's investment portfolio and that appropriate limits are being adhered to.

The Investment, Loans and Risk Committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors and outlined in the Investment Policy. The investment advisory committee meets at least once monthly to review risks, monitor compliance in respect of investment activities, evaluate performance and provide strategic direction

## 25. Insurance and financial risk management (continued)

### Overview and risk management framework (continued)

(ii) Audit Committee

The Audit Committee oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. Internal Audit assists the Audit Committee in its oversight role, by performing independent reviews of the risk management and control environment.

The most important types of risk are insurance risk, reinsurance risk, market risk, liquidity risk, credit risk, and other capital risk management. Market risk includes cash flow and fair value interest rate risk and currency risk.

### (a) Key risks arising from insurance contracts issued

*Classification*

Contracts under which the company accepts significant insurance risk are classified as insurance contracts. Contracts held by the company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance held contracts. Insurance and reinsurance held contracts also expose the company to financial risk. The company does not accept insurance risk from other insurers.

Insurance contracts are classified as direct participating contracts or contracts without direct participation features.

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate. Benefits are recognised as liabilities until the end of the guarantee period. These liabilities are increased by interest credited and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss. The annuity fund is included as a part of insurance contract liabilities [note 21 (a) and note 21 (b)].

*Recognition and measurement*

The company measures a group of insurance contracts as the total of the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and the contractual service margins.

Direct participating contracts are contracts under which the company's obligation to the policyholder is the net of the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and a variable fee for future services provided under the insurance contracts.

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## 25. Insurance and financial risk management (continued)

### (a) Key risks arising from insurance contracts issued (continued)

Claims

Death and disability claims, net of reinsurance recoveries, are recorded in profit or loss.

Reinsurance held contracts

The company enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. Reinsurance does not relieve the company of its liability and reinsurance recoveries are recorded when collection is reasonably assured.

| Portfolio | Product | Key risk | Risk Mitigation |
|---|---|---|---|
| Individual life | Life Shelter<br>Lifetime Security<br>Solace | - Mortality risk<br>- Interest rate risk | Matching of asset and liability cash flows |
| Individual health | Criticare | - Morbidity risk<br>- Mortality risk<br>- Interest rate risk | Matching of asset and liability cash flows |
| Group creditor combined revolving | Visa<br>MasterCard Small Business<br>MasterCard<br>ScotiaLine | - Morbidity risk<br>- Mortality risk | Matching of asset and liability cash flows |
| Group creditor combined single | Mortgage<br>Scotia Plan Loan | - Morbidity risk<br>- Mortality risk | Matching of asset and liability cash flows |
| Group creditor combined level | Mortgage<br>Scotia Plan Loan | - Morbidity risk<br>- Mortality risk | Matching of asset and liability cash flows |
| Individual universal life | Affirm<br>Elevate | - Mortality risk<br>- Market risk<br>- Interest rate risk | - Reinsurance of excess amounts<br>- Surrender charges<br>- Investing in investment grade assets |
| Individual savings & wealth | Scotia Mint | - Mortality risk<br>- Surrender charges | Matching of asset and liability cash flows |
| Individual annuity | Scotia Retirement Fund (RIF) | - Longevity risk | Matching of asset and liability cash flows |
| Reinsurance held contract | Affirm | - Mortality risk | Matching of asset and liability cash flows |

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## 25. Insurance and financial risk management (continued)

### (a) Key risks arising from insurance contracts issued (continued)

**Underwriting risk**

Underwriting risk comprises insurance risk, policyholder behaviour risk and expense risk.

(i) Insurance risk

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

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 and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is 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 estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the coverage period for the contract, typically extending over the life expectancy of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

*Frequency and severity of claims*

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are events such as epidemics and other wide-ranging changes to health including lifestyle changes. Depending on concentration risk, natural disasters could also result in earlier or more claims than expected.

The company charges for mortality risks on a monthly basis for insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce this mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual and group life assured. The benefits insured are shown gross and net of reinsurance.

| | Total Benefits Assured | | | |
|---|---|---|---|---|
| | 2024 | | 2023 | |
| Individual benefits assured per life | Before Reinsurance | % | Before Reinsurance | % |
| 0 to 250,000 | 3,349,300 | 3% | 3,554,683 | 4% |
| 250,001 to 500,000 | 3,070,570 | 3% | 3,104,695 | 4% |
| 500,001 to 750,000 | 7,219,099 | 7% | 7,159,089 | 8% |
| 750,001 to 1,000,000 | 3,372,248 | 3% | 3,553,422 | 4% |
| 1,000,001 to 1,500,000 | 13,792,127 | 14% | 13,521,927 | 16% |
| 1,500,001 to 2,000,000 | 8,212,146 | 8% | 8,215,441 | 10% |
| over 2,000,000 | 59,068,851 | 62% | 46,330,152 | 54% |
| Total | 98,084,341 | 100% | 85,439,409 | 100% |

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## 25. Insurance and financial risk management (continued)

### (a) Key risks arising from insurance contracts issued (continued)

**Underwriting risk (continued)**

(i) Insurance risk (continued)

| | Total Benefits Assured | | | |
|---|---|---|---|---|
| | 2024 | | 2023 | |
| Group benefits assured per life | Before Reinsurance | % | Before Reinsurance | % |
| 0 to 250,000 | 13,221,887 | 12% | 12,653,138 | 12% |
| 250,001 to 500,000 | 6,855,125 | 6% | 7,454,266 | 7% |
| 500,001 to 750,000 | 10,090,017 | 9% | 9,952,152 | 9% |
| 750,001 to 1,000,000 | 8,292,260 | 8% | 9,371,282 | 9% |
| 1,000,001 to 1,500,000 | 14,005,024 | 13% | 15,214,622 | 15% |
| 1,500,001 to 2,000,000 | 11,527,376 | 11% | 12,778,868 | 12% |
| over 2,000,000 | 45,356,249 | 41% | 38,516,590 | 36% |
| Total | 109,347,938 | 100% | 105,940,918 | 100% |

*Sources of uncertainty in the estimation of future benefit payments and premiums*

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and variability in policyholder behaviour.

Estimates are made of the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience.

*Process used in deriving non-financial assumptions*

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each year based on updated experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

(ii) Policyholder behaviour risk

Policyholder behaviour risk is the risk that a policyholders will cancel a contract (i.e. lapse or persistency risk), increase or reduce premiums or withdraw deposits leading to an unfavourable position for the insurance company. Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The company has factored the impact of policyholders' behaviour into the assumptions used to measure the liabilities.

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 25. Insurance and financial risk management (continued)

### (a) Key risks arising from insurance contracts issued (continued)

**Underwriting risk (continued)**

(ii) Policyholder behaviour risk (continued)

The company has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted. For each type of risk, the objective is to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. This is supported by policy underwriting and by applying retention limits on any single life insured.

*Life risk and life savings contracts*

A key aspect of the underwriting process for life risk and life savings products is assessment of insurance risks at the individual contract level. Pricing reflects the company's own experience, the identification of emerging trends in insurance risk factors and assessment of policyholders' lifestyles.

To limit its exposure of potential loss on an insurance policy, the company cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the company's liability as primary issuer. The company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The company manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations, and which generally have favourable credit ratings as determined by a reputable rating agency.

Policyholder behaviour risk is also considered when designing products – e.g. by means of additional charges on the early surrender of contracts in order to recover acquisition costs. Persistency is monitored using observed company experience.

(iii) Expense risk is managed through the annual budgeting process and regular expense analyses.

***Sensitivity analysis***

The table below analyses the sensitivity of the CSM, profit or loss and equity to changes in valuation assumptions. This analysis assumes that all other assumptions remain constant.

| | 2024 | | | | | |
|---|---|---|---|---|---|---|
| | CSM | | Profit and loss | | Equity | |
| | Gross | Net | Gross | Net | Gross | Net |
| **Contracts without direct participation features** | | | | | | |
| Mortality (3% increase) | ( 30,197) | ( 30,197) | ( 4,583) | ( 4,583) | ( 6,872) | ( 6,872) |
| Mortality (3% decrease) | 30,253 | 30,253 | 4,637 | 4,637 | 6,963 | 6,963 |
| Morbidity (5% increase) | ( 1,782) | ( 1,782) | 3,718 | 3,718 | ( 3,285) | ( 3,285) |
| Morbidity (5% decrease) | 1,661 | 1,661 | ( 3,708) | ( 3,708) | 3,317 | 3,317 |
| Expense (10% increase) | ( 12,838) | ( 12,838) | (24,129) | (24,129) | (19,482) | (19,482) |
| Expense (10% decrease) | 13,311 | 13,311 | 23,882 | 23,882 | 19,531 | 19,531 |
| Lapse (10% increase) | (583,002) | (583,002) | (58,210) | (58,210) | (21,178) | (21,178) |
| Lapse (10% decrease) | 591,567 | 591,567 | 56,002 | 56,002 | 23,294 | 23,294 |
| **Contracts with direct participation features** | | | | | | |
| Mortality (3% increase) | ( 695) | ( 531) | ( 3,243) | ( 3,321) | - | 76 |
| Mortality (3% decrease) | 698 | 549 | 3,218 | 3,303 | - | ( 48) |
| Morbidity (5% increase) | ( 379) | ( 381) | 202 | 203 | - | - |
| Morbidity (5% decrease) | 379 | 381 | ( 212) | ( 214) | - | ( 4) |
| Expense (10% increase) | ( 1,372) | ( 1,369) | (23,680) | (23,683) | - | 8 |
| Expense (10% decrease) | 19,188 | 19,185 | 5,867 | 5,870 | - | - |
| Lapse (10% increase) | ( 1,609) | ( 1,720) | (28,245) | (28,186) | - | ( 4) |
| Lapse (10% decrease) | 6,484 | 6,607 | 23,673 | 23,604 | - | 20 |

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## 25. Insurance and financial risk management (continued)

### (a) Key risks arising from insurance contracts issued (continued)

***Sensitivity analysis (continued)***

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | CSM | | Profit and loss | | Equity | |
| | Gross | Net | Gross | Net | Gross | Net |
| **Contracts without direct participation features** | | | | | | |
| Mortality (3% increase) | ( 18,838) | ( 18,838) | ( 2,973) | ( 2,973) | (18,947) | (18,947) |
| Mortality (3% decrease) | 18,766 | 18,766 | 3,000 | 3,000 | 19,319 | 19,319 |
| Morbidity (5% increase) | ( 7,127) | ( 7,127) | 247 | 247 | ( 6,684) | ( 6,684) |
| Morbidity (5% decrease) | 7,145 | 7,145 | ( 236) | ( 236) | 6,807 | 6,807 |
| Expense (10% increase) | ( 49,558) | ( 49,558) | (25,332) | (25,332) | (51,689) | (51,689) |
| Expense (10% decrease) | 51,497 | 51,497 | 23,367 | 23,367 | 51,333 | 51,333 |
| Lapse (10% increase) | (503,702) | (503,702) | (53,819) | (53,819) | (69,066) | (69,066) |
| Lapse (10% decrease) | 507,843 | 507,843 | 50,603 | 50,603 | 76,409 | 76,409 |
| **Contracts with direct participation features** | | | | | | |
| Mortality (3% increase) | ( 776) | ( 926) | ( 6,104) | ( 6,171) | - | 80 |
| Mortality (3% decrease) | 778 | 928 | 6,151 | 6,217 | - | ( 49) |
| Morbidity (5% increase) | ( 331) | ( 332) | ( 4,353) | ( 4,353) | - | - |
| Morbidity (5% decrease) | 407 | 408 | 4,252 | 4,252 | - | - |
| Expense (10% increase) | ( 1,909) | ( 1,908) | (40,838) | (40,838) | - | - |
| Expense (10% decrease) | 2,741 | 2,741 | 39,903 | 39,903 | - | - |
| Lapse (10% increase) | ( 5,382) | ( 5,388) | (57,953) | (57,992) | - | 87 |
| Lapse (10% decrease) | 7,090 | 7,067 | 57,547 | 57,565 | - | ( 100) |

Changes in underwriting risk variables mainly affect the CSM, profit or loss and equity as follows. The effects on profit or loss and equity are presented net of the related income tax.

a) **CSM:**

- Changes in fulfilment cash flows not relating to any loss components, other than those recognised as insurance finance income or expenses.

b) **Profit or loss:**

- Changes in fulfilment cash flows relating to loss components.
- Changes in fulfilment cash flows that are recognised as insurance finance income or expenses in profit or loss.

### (b) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the company cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the company's liability as primary issuer.

The company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

The company manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. The retention programs used by the company are summarized below:

| Type of insurance contract | Retention |
|---|---|
| Group creditor life contracts | Maximum retention of $42,000 per insured. |

## 25. Insurance and financial risk management (continued)

### (c) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The company manages its risk through the establishment of appropriate limits and close monitoring of the financial markets to identify any trends which would impact the value of its portfolio.

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

(i) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The company takes on exposure to the effects of fluctuations in market interest rates on its financial position and cash flows. Interest rate risk is managed as part of the risk management practices of the group of which it forms a part, on a monthly basis. The company's cash flow is monitored daily.

The cash flow and fair value interest rate risk is summarised in note 26(a).

(ii) Currency risk

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

The company only issues insurance contracts in Jamaican dollars and the funds are used to purchase assets in the same currency. These portfolios are not exposed to currency risk.

### (d) Liquidity risk

Liquidity risk is the risk that company is 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 repay policyholders.

The company is exposed to daily calls on its cash resources from its policyholders. The company does not necessarily maintain cash resources to meet all these needs as experience shows that a minimum level on reinvestment of maturing funds can be predicted with a high level of certainty.

The Board of Directors approves the company's liquidity and funding management policies and establishes limits to control the risk. The company assesses the adequacy of its' liquidity position by analysing its' current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows;
- Managing the concentration and profile of debt maturities;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

## 25. Insurance and financial risk management (continued)

### (d) Liquidity risk (continued)

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 to be completely matched, as transacted business 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.

Assets available to meet all of the liabilities include cash balances and government securities. The company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

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

The liquidity risk is summarised in note 26(b).

### (e) Credit risk

Credit risk is the risk that one or both parties to a financial instrument will fail to discharge an obligation resulting in loss to one or both parties.

The company manages the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by issuer are approved annually by the Board of Directors.

Other than exposure on Government of Jamaica securities and concentration of Government of Jamaica securities, there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

The credit risk is summarised in note 26(c).

### (f) Capital risk management

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its insurance licence.

Regulators are primarily interested in protecting the rights of the policyholders and monitor the company closely to ensure that it is satisfactorily managing affairs for the benefit of the policyholders. At the same time, the regulators are also interested in ensuring that the company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters. See note 27 for details of the Dynamic Capital Adequacy Testing.

(*expressed in thousands of Jamaica dollars unless otherwise stated*)

## 25. Insurance and financial risk management (continued)

### (f) Capital risk management (continued)

The operations of the company are subjected to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency to meet unforeseen liabilities as these arise.

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

- to comply with the capital requirements set by the regulators;
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The principal capital resource of the company is its shareholders' equity.

Effective January 1, 2023, the Financial Services Commission ("FSC") established a new capital adequacy regulatory framework for life insurance companies, the Life Insurance Capital Adequacy Test ("LICAT"). The adoption of LICAT is in keeping with the risk-based approach that aligns with International Financial Reporting Standard, IFRS17 – Insurance Contracts. Accordingly, life insurance companies and branches of foreign companies carrying on life insurance business in Jamaica shall have a capital ratio greater than 100%.

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. The Compay seeks to maintain internal capital adequacy levels higher than the regulatory requirements. The financial strength as at December 31, 2024, was evaluated using the revised risk-based assessment measure LICAT.

| | 2024 | 2023 |
|---|---|---|
| Regulatory capital held | 24,677,402 | 15,300,800 |
| Minimum regulatory capital | 6,815,089 | 6,915,777 |
| Total Capital Ratio | 491.4% | 332.2% |
| Regulatory requirement | 100.0% | 100.0% |

(a) Cash flow and fair value interest rate risk

The company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

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## 26. Financial instruments

(a) Cash flow and fair value interest rate risk

The following tables summarise carrying amounts of statement of financial position assets and liabilities in order to arrive at the company's interest rate gap based on earlier of contractual repricing and maturity dates.

| | 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash and cash equivalents | 15,915,943 | 3,353,982 | - | - | - | - | 19,269,925 |
| Investment securities: | | | | | | | |
| Fair value through OCI | - | 8,299,199 | 3,448,375 | 21,172,522 | 14,124,334 | 661,888 | 47,706,318 |
| Amortized cost | - | - | - | 4,618,480 | - | 61,994 | 4,680,474 |
| Fair value through P&L | - | - | - | - | - | 353,367 | 353,367 |
| Segregated fund assets | - | - | - | - | - | 1,832,334 | 1,832,334 |
| Total assets | 15,915,943 | 11,653,181 | 3,448,375 | 25,791,002 | 14,124,334 | 2,909,583 | 73,842,418 |
| Insurance contract liabilities | 1,806,418 | 48,023,284 | - | - | - | 26,486 | 49,856,188 |
| Segregated fund investment contract liabilities | - | - | - | - | - | 1,832,334 | 1,832,334 |
| Reinsurance held contract liabilities | - | - | - | - | - | 478 | 478 |
| Total liabilities and shareholders' equity | 1,806,418 | 48,023,284 | - | - | - | 1,859,298 | 51,689,000 |
| Total interest rate sensitivity gap | 14,109,525 | (36,370,103) | 3,448,375 | 25,791,002 | 14,124,334 | 1,050,285 | 22,153,418 |
| Cumulative gap | 14,109,525 | (22,260,578) | (18,812,203) | 6,978,799 | 21,103,133 | 22,153,418 | - |

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash and cash equivalents | 12,388,278 | 4,406,573 | - | - | - | - | 16,794,851 |
| Investment securities: | | | | | | | |
| Fair value through OCI | - | 299,242 | 2,030,964 | 22,542,042 | 19,859,687 | 588,248 | 45,320,183 |
| Amortized cost | - | - | 2,010,945 | - | - | - | 2,010,945 |
| Fair value through P&L | - | - | - | 1,369,191 | - | 326,945 | 1,696,136 |
| Segregated fund assets | - | - | - | - | - | 1,376,491 | 1,376,491 |
| Total assets | 12,388,278 | 4,705,815 | 4,041,909 | 23,911,233 | 19,859,687 | 2,291,684 | 67,198,606 |
| Insurance contract liabilities | 1,668,480 | 47,212,843 | - | - | - | 37,195 | 48,918,518 |
| Segregated fund investment contract liabilities | - | - | - | - | - | 1,376,491 | 1,376,491 |
| Reinsurance held contract liabilities | - | - | - | - | - | 1,426 | 1,426 |
| Total liabilities and shareholders' equity | 1,668,480 | 47,212,843 | - | - | - | 1,415,112 | 50,296,435 |
| Total interest rate sensitivity gap | 10,719,798 | (42,507,028) | 4,041,909 | 23,911,233 | 19,859,687 | 876,572 | 16,902,171 |
| Cumulative gap | 10,719,798 | (31,787,230) | (27,745,321) | ( 3,834,088) | 16,025,599 | 16,902,171 | - |

The tables below summarise the average effective yields by the earlier of the contractual repricing or maturity dates.

| | 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Weighted average |
| | % | % | % | % | % | % |
| Cash resources | 5.04 | 7.86 | - | - | - | 6.53 |
| Investment securities: | | | | | | |
| Available for sale | - | 7.41 | 7.67 | 6.37 | 5.85 | 6.82 |
| Bank of Jamaica Cerficate of Deposit | - | 6.65 | - | 9.02 | - | 7.83 |
| Policy loans | 6.99 | 6.99 | 6.99 | - | - | 6.99 |
| Insurance contract liabilities | 2.23 | 2.34 | 2.34 | - | - | 2.30 |

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**26. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued)

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Weighted average |
| | % | % | % | % | % | % |
| Cash resources | 4.00 | 9.98 | 8.29 | - | - | 7.42 |
| Investment securities: | | | | | | |
| Fair value through OCI | - | 7.70 | 7.61 | 7.51 | 5.51 | 7.08 |
| Fair Value thru P&L | - | - | - | 11.00 | - | 11.00 |
| Policy loans | 6.99 | 6.99 | 6.99 | - | - | 6.99 |
| Insurance contract liabilities | 2.22 | 2.33 | 2.32 | - | - | 2.29 |

(i) Sensitivity to interest rate movements

The table below analyses the company's sensitivity to a 0.5% parallel increase or decrease in market interest rates at the reporting date, assuming that all other variables remain constant, is presented below:

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Profit and loss | | Profit and loss | |
| | Increase | Decrease | Increase | Decrease |
| Insurance and reinsurance held contracts | 7,165 | 7,165 | 15,256 | 15,933 |

(ii) Equity price risk

Equity price risk arises out of price fluctuations in equity prices. The risk arises from holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristic of these instruments, the company limits the amount invested in them.

The table below analyses the company's sensitivity to a 5% increase or decrease in equity prices at the reporting date, assuming that all other variables remain constant, is presented below.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Profit and loss | | Profit and loss | |
| | Increase | Decrease | Increase | Decrease |
| Insurance and reinsurance held contracts | 15,443 | 15,443 | 14,064 | 14,064 |

(iii) Exposure to interest rate risk

The company's interest-sensitive instruments as reported to the Investment and Risk committee or its equivalent are as follows:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total |
| Assets | 34,021,611 | 9,353,903 | 43,375,514 | 32,827,493 | 9,514,330 | 42,341,823 |
| Underlying items of participating contracts | 1,006,646 | 180,661 | 1,187,307 | 739,184 | 138,231 | 877,415 |

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 26. Financial instruments (continued)

(a) Cash flow and fair value interest rate risk (continued)

(iv) Determination of fair value and fair values hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are all significant market observable inputs for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (significant use of unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

| | 2024 | |
|---|---|---|
| | Level 2 | Total |
| Investment securities: | | |
| Fair value through other comprehensive income | 47,706,318 | 47,706,318 |
| Fair value through profit or loss | 353,367 | 353,367 |
| | 48,059,685 | 48,059,685 |

| | 2023 | |
|---|---|---|
| | Level 2 | Total |
| Investment securities: | | |
| Fair value through other comprehensive income | 45,320,183 | 45,320,183 |
| Fair value through profit or loss | 1,696,137 | 1,696,137 |
| | 47,016,320 | 47,016,320 |

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## 26. Financial instruments (continued)

(a) Cash flow and fair value interest rate risk (continued):

(iv) Determination of fair value and fair values hierarchy (continued)

**Valuation techniques and significant unobservable inputs:**

The following table shows the valuation technique used in measuring fair value in the level 2 hierarchy.

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Government of Jamaica securities (Local and Overseas) | Obtain bid yield from yield curve provided by a recognized pricing source (which uses market-supplied indicative bids)<br><br>Using this yield, determine price using accepted formula<br><br>Apply price to estimate fair value. | Not applicable | Not applicable |
| Mutual Funds<br><br>Premium Growth Fund (PGF) Regular<br><br>Premium Growth Fund (PGF) AFFIRM<br><br>Money Market Fund (MMF) AFFIRM<br><br>Fixed Income Fund (FIF) AFFIRM | PGF – Regular: The market unit value is determined by the investment house which the company uses to compute the estimated fair value.<br><br>AFFIRM unit values: The net asset values (navs) are determined for each Fund on a daily basis. The navs are then divided by the number of existing units to ascertain the unit values which are then used to fair value the investments for each Fund. | Not applicable | Not applicable |

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**26. Financial instruments (continued)**

(a) Cash flow and fair value interest rate risk (continued):

(iv) Determination of fair value and fair values hierarchy (continued)

**Valuation techniques and significant unobservable inputs (continued):**

The fair value of financial assets and liabilities maturing within one year is considered to approximate their carrying amount and is considered to be included in the level 2 fair value hierarchy.

(b) Liquidity risk

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the company's financial liabilities based on contractual repayment obligations. The company expects that many policyholders will not request repayment on the earliest date the company could be required to pay. Included in policy holders' liabilities are outstanding interest payments.

| | 2024 | | | |
|---|---|---|---|---|
| | Within 3 months | 3 to 12 months | 1-2 years | Total |
| **Financial Liabilities** | | | | |
| Insurance contract liabilities | 49,494,239 | 7,151,763 | - | 56,646,002 |

| | 2023 | | | |
|---|---|---|---|---|
| | Within 3 months | 3 to 12 months | 1-2 years | Total |
| **Financial Liabilities** | | | | |
| Insurance contract liabilities | 48,638,836 | 7,603,833 | - | 56,242,669 |

(i) Maturity PV cash

The following table provides a maturity analysis of the company's insurance and reinsurance held contracts, which reflects the dates on which the cash flows are expected to occur.

Liabilities for remaining coverage measured under the PAA have been excluded from this analysis

| | 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Estimate of present value of future cash flows | | | | | | |
| | 1 year on less | 2-3 years | 1-2 years | 2-3 years | 4-5 years | More than 5 years | Total |
| **Insurance contracts** | | | | | | | |
| Liabilities- direct participating contracts | 33,563 | 29,285 | 26,374 | 23,999 | 22,790 | 905,755 | 1,041,766 |
| Liabilities- other | 3,744,611 | 3,207,002 | 2,899,605 | 2,637,231 | 2,420,403 | 24,806,981 | 39,715,833 |
| Assets | (5,689) | (5,826) | (6,561) | (5,682) | (5,126) | (49,091) | (77,975) |
| | 3,772,485 | 3,230,461 | 2,919,418 | 2,655,548 | 2,438,067 | 25,663,645 | 40,679,624 |
| **Reinsurance held contracts** | | | | | | | |
| Assets | (55) | (54) | (50) | (50) | (51) | (724) | (984) |

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## 26. Financial instruments (continued)

(b) Liquidity risk (continued)

(i) Maturity PV cash (continued)

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Estimate of present value of future cash flows | | | | | | |
| | 1 year on less | 2-3 years | 1-2 years | 2-3 years | 4-5 years | More than 5 years | Total |
| **Insurance contracts** | | | | | | | |
| Liabilities- direct participating contracts | 61,994 | 48,470 | 40,416 | 34,663 | 29,548 | 594,023 | 809,114 |
| Liabilities- other | 3,276,280 | 2,624,043 | 2,223,714 | 2,006,278 | 1,821,679 | 29,969,337 | 41,921,331 |
| Assets | ( 11,136) | ( 6,657) | ( 6,101) | ( 5,114) | ( 4,280) | ( 74,411) | ( 107,699) |
| | 3,327,138 | 2,665,856 | 2,258,029 | 2,035,827 | 1,846,947 | 30,488,949 | 42,622,746 |
| **Reinsurance held contracts** | | | | | | | |
| Liabilities | ( 189) | ( 147) | ( 123) | ( 105) | ( 90) | ( 1,806) | ( 2,460) |

(c) Credit risk

Credit risk exposures relating to the statement of financial position assets are as follows:

**Maximum exposure to credit risk**

The maximum credit exposure, that is, the amount of loss that would be suffered if every counterparty to the company's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the statement of financial position, without taking account of any collateral held or other credit enhancements.

The table below presents an analysis of debt securities by rating agency designation as at December 31, 2024, and 2023 based on Standard and Poor's ratings or their equivalent:

| | 2024 | 2023 |
|---|---|---|
| BB to B- | 52,386,792 | 48,047,893 |
| Unrated | 353,367 | 979,372 |
| | 52,740,159 | 49,027,265 |
| Classified as follows: | | |
| Amortised cost | 4,680,474 | 2,010,945 |
| Financial assets at fair value through profit or loss | 353,367 | 1,696,137 |
| Financial assets at fair value through other comprehensive income | 47,706,318 | 45,320,183 |
| | 52,740,159 | 49,027,265 |

The company issues policy loans to ScotiaMint policyholders. These loans are fully secured by the outstanding ScotiaMint fund values. The company has the ability to off-set any outstanding balances using the cost surrender value, hence the loss given default will be zero. As such credit risk is immaterial.

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 26. Financial instruments (continued)

(c) Credit risk (continued)

**Maximum exposure to credit risk (continued)**

Credit review process

*Investment securities*

The company limits its exposure to credit risk associated with investment securities by investing mainly in liquid securities with counterparties that have high credit quality and Government of Jamaica securities.

*Credit quality*

The company identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the company supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

12-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

The credit quality of investment securities is as follows:

| | 2024 | 2023 |
|---|---|---|
| | 12-month ECL | 12-month ECL |
| | Stage 1 | Stage 1 |
| | Debt securities | Debt securities |
| Credit Rating: | | |
| BB+ | 47,634,931 | 45,282,531 |
| Financial adjustment on ECL | 71,387 | 37,658 |
| Carrying amount | 47,706,318 | 45,320,189 |

*Cash resources*

The company held cash resources with the bank and financial institution counterparties with 1 rating.

Impairment on cash resources has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash resources have low credit risk based on the external credit ratings of the counterparties.

This uses a similar approach for the assessment of ECLs for cash resources to those used for investment securities.

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 3(f).

(*expressed in thousands of Jamaican dollars unless otherwise stated*)

## 26. Financial instruments (continued)

(c) Credit risk (continued)

*Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The movement in allowance for impairment in respect of investment securities during the year as follows.

| | 2024 | 2023 |
|---|---|---|
| Balance at 1 January | 37,658 | 140,756 |
| Recognised in profit or loss | 33,729 | (103,098) |
| Balance as at 31 December | 71,387 | 37,658 |

Debt securities

The following table summarises the company's credit exposure for debt securities at their carrying amounts, as categorised by issuer (see note 11):

| | 2024 | 2023 |
|---|---|---|
| Government of Jamaica and Bank of Jamaica | 53,164,914 | 48,662,668 |
| Other financial institutions | 353,367 | 326,945 |
| | 53,518,281 | 48,989,613 |
| Add: financial adjustment on ECL | 71,387 | 37,658 |
| | 52,589,668 | 49,027,271 |

Collateral and other credit enhancements held against financial assets

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of different types of collateral. The main types of collateral obtained are accounts receivable, and charges over financial instruments such as debt securities.

## 26. Financial instruments (continued)

(c) Credit risk (continued)

Collateral and other credit enhancements held against financial assets (continued)

Estimates of fair value are based on the value of collateral assessed at the time of granting credit or acquiring other financial assets, and generally are not updated except when a financial asset is individually assessed as impaired. Collateral generally is not held over balances with banks, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held as at December 31, 2024 and December 31, 2023.

Management monitors the market value of collateral held during its review of the adequacy of the provision for credit losses and requests additional collateral in accordance with the underlying agreement.

(d) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the company. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

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

The following methods and assumptions have been used:

- financial investments classified as fair value through other comprehensive income or available for sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- the fair value of liquid assets and other assets maturing within one year 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;
- the fair value of variable rate financial instruments is assumed to approximate their carrying amounts which is the cost plus accrued interest; and
- the fair value and the carrying value of the policyholders' fund are assumed to be the same based on annual actuarial valuation.

## 27. Capital adequacy

(a) Dynamic Capital Adequacy Testing (DCAT)

DCAT is a technique used by the company to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the company's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the company is reflected by the amount of assets, liabilities and shareholders' equity on the statement of financial position at a given date.

The financial condition of the company at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the company and future financial condition to changes in various experience factors and management policies;
- to alert management to material, plausible and imminent threats to the company's solvency; and
- to describe possible courses of action to address these threats.

A full DCAT report was completed for March 2024, based on the financial position of the company at December 31, 2023. The results were as follows:

(i) Mortality and morbidity risks

To test this scenario, existing mortality and morbidity rates were increased by 3% per annum for five years starting in 2024. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

(ii) Low lapse rates

The business was tested by applying a factor of 50% to existing lapse and surrender rates. Overall, this scenario produces a higher surplus and a lower LICAT over the 5-year period.

(iii) Higher lapse rates

The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the LICAT capital ratio increases.

(iv) Expense risks

Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2024, for five years. Overall, this scenario produces a small reduction in the LICAT capital ratio over the 5-year period.

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## 27. Capital adequacy (continued)

(a) Dynamic Capital Adequacy Testing (DCAT) (continued)

(v) Low interest rate

An assumed decrease in the portfolio rate of 5% over a 5-year period was tested in this scenario. It is assumed that inflation decreases similarly. Overall, this scenario produces a higher LICAT capital ratio over the five-year period.

(vi) High interest rate

This scenario assumed an increase of 5% over a 5-year period in the portfolio rate. It also assumed that inflation increases by the same amount. Overall, this scenario produces a lower LICAT capital ratio over the five-year period.

(vii) High sales growth

New business was projected to be 20% higher than existing sales over five years. The increased sales result in increased surplus but the LICAT capital ratio falls.

(viii) Low sales

This scenario assumed sales were 20% less every year starting in 2024. Fees are also lower than under the base scenario. Overall this scenario produces a reduced surplus but the LICAT capital ratio improves.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios for the next five years to net actuarial liabilities at the end of the projection period, which is 5 years after the relevant financial year end.

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Surplus | LICAT | Surplus | LICAT |
| Base | 27,145,970 | 399% | 26,906,240 | 1108% |
| Variable | | | | |
| Mortality risks | 26,698,229 | 389% | 26,327,829 | 1123% |
| Low lapse rates | 28,246,675 | 347% | 28,433,581 | 1069% |
| Higher lapse rates | 25,498,017 | 495% | 22,960,947 | 1562% |
| Expense risks | 26,343,802 | 379% | 25,996,774 | 1100% |
| Low interest rate | 26,147,666 | 426% | 24,778,966 | 1027% |
| High Interest rate | 28,624,914 | 350% | 24,825,687 | 1095% |
| High sales growth | 27,391,458 | 385% | 27,640,518 | 1067% |
| Low sales | 26,860,834 | 415% | 25,386,837 | 1137% |

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## 28. Related party transactions and balances

A number of transactions are entered into with related parties including companies connected by virtue of common directorship in the normal course of business.

The volumes of related party transactions, outstanding balances at the period end, and related expenses and income for the year are as follows:

| | Ultimate parent | Parent company | Fellow subsidiaries | Directors and key management personnel | Total 2024 | Total 2023 |
|---|---|---|---|---|---|---|
| Insurance products | - | - | - | 22,167 | 22,167 | 31,415 |
| Due from banks and other financial institutions | - | 15,915,943 | 353,367 | - | 16,269,310 | 12,715,223 |
| Interest earned from banks and other financial institutions | - | ( 604,287) | - | - | ( 604,287) | ( 399,667) |
| Management fees received | - | - | (301,569) | - | ( 301,569) | ( 281,693) |
| Management fees paid | 143,265 | 63,216 | - | - | 206,481 | 157,393 |
| Other operating expenses | - | 22,021 | 46,303 | - | 68,324 | 75,171 |
| Commission on securities | - | - | 25,965 | - | 25,965 | 41,112 |

**Key management compensation**

| | 2024 | 2023 |
|---|---|---|
| Salaries and other short term benefits | 125,529 | 114,658 |
| Post-employment benefits and allowances | 11,235 | 9,929 |

## 29. Fiduciary activities

The company provides administrative services to an approved retirement scheme. This involves the company making purchase decisions in relation to investments. These assets, which are held in a fiduciary capacity, are not included in these financial statements. At the reporting date, there were assets under management amounting to approximately $17,140,926 (2023: $15,114,838).