SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2019

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
<u>SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED</u>

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 64, which comprise the statement of financial position as at December 31, 2019, 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 significant 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and 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' Code of Ethics for Professional Accountants (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 financial statements that give a true and fair view in accordance with IFRS 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.

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)

- 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.

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.

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 (continued)

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

February 28, 2020

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2019
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Income			
Premium income, net of reinsurance	5	2,520,085	2,030,927
Investment income	6	2,299,357	2,796,940
Fee and commission income, net	7	606,941	566,231
Realised gains, net	8	466,636	635,866
		5,893,019	6,029,964
Expected credit loss adjustment	27(c)	40,734	79,761
Policyholders' benefits and expenses			
Policyholders' benefits and reserves	9	1,034,014	1,272,933
Salaries, pension contributions and other staff benefits	10	562,072	552,700
Property expenses		44,300	47,374
Other operating expenses	11	365,777	465,959
		2,006,163	2,338,966
Profit before taxation		3,927,590	3,770,759
Taxation	12	(958,607)	(799,287)
Net profit		2,968,983	2,971,472
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gains on financial assets at fair value through other comprehensive income		(428,306)	(400,341)
Unrealised gains on financial at fair value through other comprehensive income		(271,475)	1,247,397
Expected credit loss adjustment on other comprehensive income		(40,027)	(76,796)
Deferred income tax relating to components of other comprehensive income	13	184,952	(192,565)
Other comprehensive income for the year, net of tax		(554,856)	577,695
Total comprehensive income for the year		2,414,127	3,549,167

The accompanying notes form an integral part of the financial statements.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2019
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica maturing within 90 days of the original purchase date	14	270,416	4,224,012
Accounts with parent company	14	1,768,811	1,349,938
		2,039,227	5,573,950
Investment securities			
Financial assets at fair value through other comprehensive income	15	51,277,669	49,790,755
Financial assets at fair value through profit or loss	15	2,010,349	1,972,019
		53,288,018	51,762,774
Policy loans	16	1,224,298	1,395,605
Other assets			
Property, plant and equipment	17	4,445	5,831
Intangible assets, computer software	2(r),18	79,814	81,480
Right-of-use asset	21	12,776	-
Taxation recoverable		1,791,079	1,224,062
Other assets		2,684	327,343
		1,890,798	1,638,716
		58,442,341	60,371,045
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	19	44,897,601	45,065,753
Other liabilities			
Sundry liabilities	20	169,946	270,632
Taxation payable		106,077	-
Lease liability	21	12,857	-
Deferred tax liabilities	22	488,134	688,156
		777,014	958,788
Shareholders' equity			
Share capital	23	150,000	150,000
Cumulative re-measurement result from fair value through other comprehensive income financial assets	24	863,620	1,418,476
Unappropriated profits		11,754,106	12,778,028
		12,767,726	14,346,504
		58,442,341	60,371,045

The financial statements on pages 5 to 64 were approved for issue by the Board of Directors on February 28, 2020 and signed on its behalf by:

Director
Audrey Richards

Director
Noel Foster

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Year ended December 31, 2019
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital (Note 23)	Cumulative re-measurement result from other comprehensive income (Note 24)	Unappropriated profits	Total
Balances at December 31, 2017		150,000	995,815	10,991,024	12,136,839
Reclassification impact of adopting IFRS 9		-	(271,836)	271,836	-
Remeasurement impact of initial application of IFRS 9		-	116,802	(119,747)	(2,945)
Adjusted balance as at December 31, 2017		150,000	840,781	11,143,113	12,133,894
Net profit for the year		-	-	2,971,472	2,971,472
Other comprehensive income	13	-	577,695	-	577,695
Dividends	32	-	-	(1,336,557)	(1,336,557)
Balances at December 31, 2018		150,000	1,418,476	12,778,028	14,346,504
Net profit for the year		-	-	2,968,983	2,968,983
Other comprehensive income	13	-	(554,856)	-	(554,856)
Dividends	32	-		(3,992,905)	(3,992,905)
Balances at December 31, 2019		150,000	863,620	11,754,106	12,767,726

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2019
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Net profit for the year		2,968,983	2,971,472
Items not affecting cash:			
Investment income	6	(2,299,357)	(2,796,940)
Interest expense on lease liability	21	92	-
Interest credited to policyholders and annuitants	9	1,322,083	1,420,046
Transfer from actuarial reserves	9	(515,972)	(344,033)
Taxation	12	958,607	799,287
Amortisation	18	1,666	2,001
Depreciation	17,21	13,178	2,706
		2,449,280	2,054,539
Changes in operating assets and liabilities			
Taxation recoverable		(567,017)	(574,778)
Other assets		324,659	(469)
Policyholders' liabilities		(974,263)	(790,551)
Other liabilities		(100,686)	43,433
Lease liability, net		(11,803)	-
		1,120,170	732,174
Interest received		2,410,000	2,925,666
Income tax paid		(1,052,552)	(1,113,437)
Net cash provided by operating activities		2,477,618	2,544,403
Cash flows from investing activities			
Investment securities, net		(2,182,309)	2,250,325
Policy loans		162,873	224,783
Certificate of deposits with the Bank of Jamaica		-	657,578
Net cash (used in)/provided by investing activities		(2,019,436)	3,132,686
Net cash provided before dividend payments			
Dividends paid	32	(3,992,905)	(1,336,557)
Net (decrease)/increase in cash and cash equivalents		(3,534,723)	4,340,532
Cash and cash equivalents at beginning of year		5,573,950	1,233,418
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	2,039,227	5,573,950

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements
December 31, 2019
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

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 and annuities.

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) 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"). This is the first set of the company's annual financial statements in which IFRS 16*, Leases* have been applied. Changes to significant accounting policy is described in note 2(t).

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, which were in issue were not effective at the reporting date and had not been early-adopted by the company.

New, revised and amended standards and interpretations that are not yet effective

- IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2021 (although the IASB proposed to defer the effective date until January 1, 2022), replaces IFRS 4 *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach. The key principles in IFRS 17 are that an entity:
  - identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event, (the insured event) adversely affects the policyholder;
  - separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New, revised and amended standards and interpretations that are not yet effective (continued)

- IFRS 17 *Insurance Contracts* (continued)

  The key principles in IFRS 17 are that an entity:

  - recognises and measures company of insurance contracts at:

    a) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset).
  - an amount representing the unearned profit in the company of contracts (the contractual service margin).
  - recognises the profit from a company of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a company contract is or becomes loss-making, an entity recognises the loss immediately.
  - presents separately insurance revenue (that excludes the receipt of repayment of investment components) and insurance finance income or expenses;
  - includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

  Many of the disclosures of IFRS 4 are retained in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

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

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

  The main change relates to how and when assets and liabilities are recognised and de-recognised in financial statements.

  - New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
  - A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
  - A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The company is assessing the impact that the amendments will have on its 2020 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of fair value through other comprehensive income.

(iii) 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 3.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the company's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(b) Insurance contracts – recognition and measurement

(i) Classification

The company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The company defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the company defines as significant insurance risk, the possibility of having to pay benefits, at the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

Insurance contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they are due and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is the policyholders' fund. Income consists of fees deducted for mortality, policy administration and surrenders.

2. Summary of significant accounting policies (continued)

(b) Insurance contracts – recognition and measurement (continued)

(ii) Recognition and measurement (continued)

Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in profit or loss.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(i). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

(c) 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 policyholders' liabilities [note 19 (a)].

(d) Revenue recognition

(i) Premium income

Gross premiums are recognised as revenue when due. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue. Unearned premiums are those proportions of premiums written in the current year that relate to periods of risk after the reporting date.

(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.

2. Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(ii) Investment income (continued)

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.

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) Fee and commission income

Fees for retirement planning administration services are recognised at a point in time when the service is provided to the customers.

A contract with a customer that results in a recognised financial instrument in the company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Performance obligations and revenue recognition policies:

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows:

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms.**	**Revenue recognition under IFRS 15.**
Policy Administrative fee	The company charges monthly administrative fees on policies to cover fund administrative costs such as printing & stationary expenses.	Revenue from administrative service is recognised over time as the service is provided.

2. Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) Fee and commission income (continued)

Performance obligations and revenue recognition policies (continued):

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are as follows (continued):

Type of service (continued)	Nature and timing of satisfaction of performance obligations, including significant payment terms. (continued)	Revenue recognition under IFRS 15 (continued)
Surrender Charges and other contract fees	These are charged to policy holders upon surrender of the insurance contract.	Revenue from surrender charges and other contract fees is recognised over time as the need arises.
Management and Administrative fee	These are fees charged to the approve retirement scheme.	Revenue from management and administrative service are recognised over time as the service is provided.

(iv) 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 occurrence of the sale transaction.

(e) Reinsurance contracts held

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 [see note 2(b)]. Reinsurance does not relieve the originating insurer of its liability.

(f) Claims

Death claims are recorded in profit or loss net of reinsurance recoverable.

(g) Taxation

Taxation on the profit or loss for the year comprises 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.

2. Summary of significant accounting policies (continued)

(g) Taxation (continued)

(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 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.

(h) Financial assets and liabilities

Financial assets comprise cash resources, investment securities and other assets. Financial liabilities comprise policyholders' liabilities and other liabilities.

Recognition

The company initially recognises loans and receivables and 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 assets and liabilities designated as at fair value through profit or loss) are initially recognised on the settlement date – the date on which the asset is delivered to or by the company.

Classification and measurement, derecognition, and impairment of financial instruments

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);

2. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Classification and measurement, derecognition, and impairment of financial instruments (continued)

Classification and measurement (continued)

Classification and measurement of financial assets (continued)

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

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

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 companys 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;

2. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Classification and measurement (continued)

Business model assessment (continued)

- Other business model (continued):
  - 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.

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.

2. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Classification and measurement (continued)

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 Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of 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 Income. Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to Interest income in the Statement of Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL 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 Income. The accumulated allowance recognised in OCI is recycled to the Statement of Income upon derecognition of the debt instrument.

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 Income as part of Non-interest income. Realsed and unrealised gains and losses are recognised as part of Non-interest \income in the Statement of 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 Income.

2. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Classification and measurement (continued)

Classification and measurement of financial liabilities

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

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

Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL are held principally for the purpose of repurchasing in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking. Financial liabilities are recognised on a trade date basis and are accounted for at fair value, with changes in fair value and any gains or losses recognised in the Statement of Income as part of the non-interest income. Transaction costs are expensed as incurred.

Financial liabilities measured at amortised cost

Deposits, subordinated notes and debentures are accounted for at amortised cost. Interest on deposits, calculated using the effective interest rate method, is recognised as interest expense. Interest on subordinated notes and debentures, including capitalized transaction costs, is recognised using the effective interest rate method as interest expense.

Financial liabilities designated at FVTPL

Financial liabilities 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 liabilities for which a reliable estimate of fair value can be obtained.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A company of financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial liabilities designated at FVTPL are recorded in the Statement of Financial Position at fair value. Any changes in fair value are recognised in Non-interest income in the Statement of Income, except for changes in fair value arising from changes in the company's own credit risk which are recognised in the OCI. Changes in fair value due to changes in the company's own credit risk are not subsequently reclassified to Statement of Income upon derecognition/extinguishment of the liabilities.

2. Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

Classification and measurement (continued)

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 represent 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 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.

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 values 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 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.

(i) 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.

2. Summary of significant accounting policies (continued)

(i) Expected credit losses

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.

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 judgment.

2. Summary of significant accounting policies (continued)

(i) Expected credit losses (continued)

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 three 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. The process involves the development of two 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 retail and 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.

2. Summary of significant accounting policies (continued)

(i) Expected credit losses (continued)

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

Non-retail portfolio – The company uses a risk rating scale (IG codes) for its non-retail exposures. All non-retail 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.

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.

2. Summary of significant accounting policies (continued)

(i) Expected credit losses (continued)

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.

(j) 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.

(i) Calculation of recoverable amount:

The recoverable amount of the company's investment securities classified as loans and receivables and other receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

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:

An impairment loss in respect of a receivable is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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.

(k) Property, plant and equipment

Property, plant and equipment are shown at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

2. Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

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

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of the assets over their expected useful lives as follows:

Leasehold improvements	Period of lease
Computer equipment	4 years
Furniture, fixtures and equipment	10 years

Capital work in progress is not depreciated.

The depreciation methods, useful lives and residual values are reassessed at the reporting dates. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the profits for the year.

(l) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources 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 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.

(m) 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).

2. Summary of significant accounting policies (continued)

(m) Related parties (continued)

(b) (Continued)

(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.

(n) Pension scheme

The company participates in a defined benefit pension scheme 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 25).

(o) Cash and cash equivalents

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.

(p) 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.

(q) 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.

2. Summary of significant accounting policies (continued)

(q) Fiduciary activities (continued)

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.

(r) Intangible assets

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs are expensed where they are considered to be immaterial.

As at the reporting date, the intangible assets were not included in the operations of the company.

(s) Leases

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 2(t).

Policy applicable from January 1, 2019

At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the company assesses whether:

- the contract involves the use of an identified assets – This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the company has the right to direct the use of the asset. The company has this right when it has the decision/making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the company has the right to direct the use of the asset if either:
- the company has the right to operate the asset; or
- the company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the company has elected not to separate non-lease components on account for the lease and non-lease components as a single lease component.

2. Summary of significant accounting policies (continued)

(s) Leases (continued)

Policy applicable from January 1, 2019 (continued)

As a lessee

The entity recognises a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any direct initial direct costs incurred and an estimate of costs to dismantle and remove underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the entity's incremental borrowing rate.

Generally, the entity uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date:
- amounts expected to be to be payable under a residual value guarantee: and
- the exercise price under a purchase option that the entity is reasonably certain to exercise, lease payments in an optional renewal period if the entity is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the entity is reasonably certain not to terminate early.

The lease liability is measured at amortised using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in entitys estimate of the amount expected to be payable under a residual value guarantee or if the entity changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The entity presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities in loans and borrowings in the statement of financial position.

2. Summary of significant accounting policies (continued)

(s) Leases (continued)

Policy applicable from January 1, 2019 (continued)

Short-term leases and leases of low-value assets

For short term leases and leases of low-value assets, the entity has elected not to recognise right-of-use assets and lease liabilities for short term leases of assets that have a lease term of 12 months or less and lease of low-value assets. The entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessee

In the comparative period, assets held under lease were classified as operating leases and were not recognised in the company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(t) Changes in accounting policies

The company has initially adopted IFRS 16 *Leases* from January 1, 2019.

The company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease.

The company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the company leases many assets including property. The company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company.

2. Summary of significant accounting policies (continued)

(t) Changes in accounting policies (continued)

As a lessee (continued)

Under IFRS 16, the company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the company's incremental borrowing rate at the date of initial application: the company applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the company applied this approach to all other leases.

The company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impact on transition

On transition to IFRS 16, the company recognised $24,568,000 of right-of-use assets, and $24,568,000 of lease liabilities. The impact on transition is summarised below. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted–average rate applied is 0.50%.

2. Summary of significant accounting policies (continued)

(t) Changes in accounting policies (continued)

Impact on transition (continued)

	Janauary 1, 2019
Right-of-use asset	24,568
Deferred tax liability	(6,142)
Lease liability	(24,568)
Deferred tax asset	6,142
Accumulated profit	-

3. 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) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves. Any adjustment to the reserves is reflected in the year to which it relates.

(ii) 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 significant judgement.

(expressed in thousands of Jamaican dollars unless otherwise stated)

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

(iii) 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.

(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 29]

4. 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 using the policy premium method, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force. 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 his report on the policyholders' liabilities.

5. Premium income, net of reinsurance

	2019	2018
Gross written premium		
Individual life	664,311	590,871
Group life	1,811,248	1,410,431
Universal life	44,531	29,983
	2,520,090	2,031,285
Reinsurance	(5)	(358)
	2,520,085	2,030,927

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6. Investment income,net

	2019	2018
Investment securities	2,157,636	2,632,866
Certificate of deposits with the Bank of Jamaica	41,678	61,368
Interest on policy loans	90,885	107,943
Government securities purchased under resale agreement	(2,288)	(12,901)
Other bank balances	11,446	7,664
	2,299,357	2,796,940

7. Fee and commission income, net

	2019	2018
Management and administration fees	232,938	191,544
Investment commissions paid	(5,926)	(2,857)
Surrender charges and other contract fees	49,026	48,148
Policy administrative fees	330,903	329,396
	606,941	566,231

8. Realised gains, net

	2019	2018
Foreign exchange gain	-	14
Gain on sale of securities	428,306	400,341
Gain on disposal of financial assets FVTPL	38,330	235,511
	466,636	635,866

9. Policyholders' benefits and reserves

	2019	2018
Policyholders' benefit payments	227,903	196,920
Interest credited – policyholders	1,303,074	1,400,805
Interest credited – annuitants	19,009	19,241
Transfer from actuarial reserves	(515,972)	(344,033)
	1,034,014	1,272,933

10. Salaries, pension contributions and other staff benefits

	2019	2018
Wages and salaries	462,203	449,922
Statutory contributions	40,206	37,635
Other staff benefits	59,663	65,143
	562,072	552,700

(expressed in thousands of Jamaican dollars unless otherwise stated)

11. Nature of expenses

	2019	2018
Auditors' remuneration	8,652	15,022
Depreciation (note 17,18 and 21)	14,844	4,707
Directors' emoluments	4,312	2,760
Management fees	137,863	156,387
Asset tax	142,921	141,047
Other expenses	57,185	146,036
	365,777	465,959

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:

	2019	2018
Current income tax:		
Income tax at 25%	973,677	831,793
Deferred income tax (note 22)	(15,070)	(32,506)
	958,607	799,287

(b) Reconciliation of effective tax rate:

	2019	2018
Profit before taxation	3,927,590	3,770,759
Tax calculated at 25%	981,898	942,690
Adjustment for the effect of:		
Asset tax paid	35,731	34,579
Expenses disallowed/income exempt for tax purposes	(66,625)	(92,265)
Other charges and allowances	7,603	(85,717)
	958,607	799,287

13. Deferred income tax effects relating to other comprehensive income

	2019		
	Before tax amount	Tax (expense)	Net of tax
Financial assets carried at fair value through other comprehensive income	(739,808)	184,952	(554,856)

	2018		
	Before tax amount	Tax (expense)	Net of tax
Financial assets carried at fair value through other comprehensive income	770,260	(192,565)	577,695

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14. Cash and cash equivalents

	2019	2018
Cash and cash equivalent is comprised of:		
Cash and balances with Bank of Jamaica	270,416	4,224,012
Accounts with parent company	1,768,811	1,349,938
	2,039,227	5,573,950

15. Investment securities

	2019	2018
Financial assets at fair value through other comprehensive income:		
Debt securities	50,729,864	49,146,692
Interest receivable	547,805	644,063
	51,277,669	49,790,755
Financial assets at fair value through profit or loss:		
Debt securities	1,976,522	1,938,192
Interest receivable	33,827	33,827
	2,010,349	1,972,019
	53,288,018	51,762,774

(expressed in thousands of Jamaican dollars unless otherwise stated)

15. Investment securities (continued)

	Available for sale	Financial asset at fair value through other comprehensive income	Held to maturity	Financial asset at fair value through profit or loss	Total
December 31, 2017	52,338,230	-	1,028,804	-	53,367,034
Transfer to FVOCI	(52,338,230)	52,338,230	-	-	-
Purchases	-	9,317,824	-	-	9,317,824
Maturities	-	(3,717,333)	(1,017,000)	-	(4,734,333)
Disposals	-	(7,461,000)	-	-	(7,461,000)
Transfer to FVTPL	-	(1,702,682)	-	1,938,192	235,510
Amortisation adjustment	-	317,080	-	-	317,080
Accrued interest adjustment	-	(148,420)	(11,804)	33,827	(126,397)
Fair value net gains	-	847,056	-	-	847,056
December 31, 2018	-	49,790,755	-	1,972,019	51,762,774
Purchases	-	10,853,875	-	-	10,853,875
Maturities	-	(7,939,025)	-	-	(7,939,025)
Disposals	-	(2,020,000)	-	-	(2,020,000)
Amortisation adjustment	-	1,388,102	-	-	1,388,102
Accrued interest adjustment	-	(96,257)	-	-	(96,257)
Fair value net gains	-	(699,781)	-	38,330	(661,451)
December 31, 2019	-	51,277,669	-	2,010,349	53,288,018

(expressed in thousands of Jamaican dollars unless otherwise stated)

15. Investment securities (continued)

Included in investment securities are Government of Jamaica local registered stocks valued at $90,000 (2018: $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 other comprehensive income investments include holdings in Scotia Investments Jamaica Limited funds as follows:

	2019		2018	
	Units	Unit price	Units	Unit price
Premium Growth Fund	478,925	447.2411	478,925	348.3624
Money Market Fund	500,000	117.7055	500,000	117.4085
Fixed Income Fund	485,667	146.9130	485,667	142.3926

16. Policy loans

	2019	2018
Principal	1,180,507	1,343,378
Accrued interest	43,791	52,227
	1,224,298	1,395,605

17. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture fixtures and equipment	Total
Cost:				
December 31, 2017, 2018 and 2019	7,861	37,138	36,051	81,050
Accumulated depreciation:				
December 31, 2017	7,861	35,565	29,087	72,513
Charge for the year	-	1,222	1,484	2,706
December 31, 2018	7,861	36,787	30,571	75,219
Charge for the year	-	191	1,195	1,386
December 31, 2019	7,861	36,978	31,766	76,605
Net book values:				
December 31, 2019	-	160	4,285	4,445
December 31, 2018	-	351	5,480	5,831

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18. Intangible assets

	Software	Software work in progress	Total
Cost:			
December 31, 2017, 2018 and 2019	8,003	79,814	87,817
Accumulated depreciation:			
December 31, 2017	4,336	-	4,336
Charge for the year	2,001	-	2,001
December 31, 2018	6,337	-	6,337
Charge for the year	1,666	-	1,666
December 31, 2019	8,003	-	8,003
Net book values:			
December 31, 2019	-	79,814	79,814
December 31, 2018	1,666	79,814	81,480

19. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

		2019	2018
Policyholders' fund		51,887,292	51,657,873
Benefits and claims payable		225,646	183,373
Unprocessed premiums		30,628	18,444
Annuities		600,818	536,874
Insurance risk reserve	- Individual life	(9,210,286)	(8,406,807)
	- Individual A&S	423,236	385,910
	- Group life	864,524	611,910
	- Whole life	155,004	125,819
	- Universal life	(79,261)	(47,643)
		44,897,601	45,065,753

(b) Change in policyholders' liabilities:

	2019	2018
Policyholders' fund:		
At beginning of the year	51,657,873	51,050,699
Gross premiums	4,910,404	5,054,400
Benefits and claims	(5,984,059)	(5,848,031)
Interest credited	1,303,074	1,400,805
At end of the year	51,887,292	51,657,873
Benefits and claims payable:		
At beginning of the year	183,373	199,950
Policyholders' claims and benefits	270,176	180,343
Benefits and claims paid	(227,903)	(196,920)
At end of the year	225,646	183,373
Unprocessed premiums:		
At beginning of the year	18,444	12,271
Premiums received	7,856,281	7,522,831
Premiums applied	(7,844,097)	(7,516,658)
At end of the year	30,628	18,444

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19. Policyholders' liabilities (continued)

(b) Change in policyholders' liabilities (continued):

	2019		
	Individual	Group	Total
Insurance risk reserve:			
At beginning of the year	(7,942,721)	611,910	(7,330,811)
Changes in product and assumptions	(343,649)	1,097	(342,552)
Normal changes	(424,937)	251,517	(173,420)
At end of the year	(8,711,307)	864,524	(7,846,783)

	2018		
	Individual	Group	Total
Insurance risk reserve:			
At beginning of the year	(7,505,672)	518,898	(6,986,774)
Changes in product and assumptions	(539,005)	621	(538,384)
Normal changes	101,956	92,391	194,347
At end of the year	(7,942,721)	611,910	(7,330,811)

(c) Investments and other assets supporting policy liabilities:

	2019				
	Individual Insurance	Group Insurance	Individual Annuities	Capital and Surplus	Total
Debt securities -					
Fair value through other comprehensive income	41,651,638	855,249	606,957	8,163,825	51,277,669
Fair value through profit or loss	1,665,951	-	-	344,398	2,010,349
Certificate of deposits with the Bank of Jamaica	-	-	-	270,416	270,416
	43,317,589	855,249	606,957	8,778,639	53,558,434

	2018				
	Individual Insurance	Group Insurance	Individual Annuities	Capital and Surplus	Total
Debt securities -					
Fair value through other comprehensive income	41,395,521	545,762	342,433	7,507,039	49,790,755
Fair value through profit or loss	-	-	-	1,972,019	1,972,019
Certificate of deposits with the Bank of Jamaica	2,397,274	75,122	200,325	1,551,291	4,224,012
	43,792,795	620,884	542,758	11,030,349	55,986,786

19. Policyholders liabilities (continued)

(d) Policy assumptions

Policy liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

(a) Best estimate assumptions

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

Assumptions are based on standard industry tables reflecting recent historical and company experience.

(ii) Investment yields

The company matches assets and liabilities by line of business.

For ScotiaMint and Credit Insurance the Actuary has assumed a portfolio rate of 4.25% in January 2020 remaining at 4.25% until January 2021 and then increasing to 5.00% by 2040.

For Criticare and WholeLife the Actuary has assumed a portfolio rate of 6.19% in January 2020 decreasing to 5.00% by 2039.

Assumed interest rates are net of asset tax and have been decreased by 0.5% as a margin for adverse deviation. The appropriateness of these rates has been tested by projecting asset and liability cash flows under various reinvestment scenarios.

The main source of uncertainty is the fluctuation in the economy.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the company's own experience adjusted for expected future conditions.

Lapse and surrender rates are derived from the company's own experience. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in economic conditions.

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19. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the company's own internal cost studies projected into the future with an allowance for inflation.

Inflation is assumed to be 4.00% in January 2020 decreasing to 2% over 20 years. A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The company's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the company's own experience.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(b) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

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

20. Sundry liabilities

	2019	2018
Accrued charges	118,512	219,137
Accrued vacation	26,761	24,994
Statutory deductions	21,988	24,429
Other	2,685	2,072
	169,946	270,632

(expressed in thousands of Jamaican dollars unless otherwise stated)

21. Lease

The company leases property for its office. The lease period is for 2 years and one month. Previously, the lease was classified as an operating lease under IAS 17. The annual discount rate being applied as per IFRS 16 is 0.50%.

Information about the lease for which the company is a lessee is presented below:

(a)	Right-of-use asset	2019
	Balance at January 1	24,568
	Depreciation charge for the year	(11,792)
	Balance as at December 31	12,776
(b)	Lease liability	2019
	Maturity analysis – contractual undiscounted cash flows:	
	Less than one year	11,897
	One to five years	992
	Total undiscounted lease liability at December 31	12,889
	Lease liability included in the statement of financial position at December 31	
	Current	11,865
	Non-current	992
		12,857
(c)	Amount recognised in profit or loss	2019
	Interest on lease liability	(92)
(d)	Amount recognised in the statement of cash flows	2019
	Total cash outflow for lease	(11,803)

Extension options

The lease contain extension option exercisable by the company up to six months before the end of the non-cancellable contract period. Where practicable, the company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the company and not by the lessors. The company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The company has decided that they will not exercise the extension option.

22. Deferred tax 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 and applicable tax rate of 25%.

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22. Deferred tax liabilities (continued)

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

	2019	2018
Balance at beginning of year	688,156	529,079
Impact of initial application of IFRS 9	-	38,934
Recognised in profit for the year [note 12(a)]	(15,070)	(32,506)
Expected credit loss adjustment		(39,916)
Recognised in other comprehensive income:		
FVOCI investments		
fair value re-measurement (note 13)	(184,952)	192,565
Balance at end of year	488,134	688,156

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

	2019	2018
Deferred income tax asset:		
Accrued vacation	6,690	6,248
Accelerated tax depreciation	-	123
Expected credit loss adjustment	20,004	-
Lease liability	20	-
Impact of initial application of IFRS 9	-	39,916
	26,714	46,287
Deferred income tax liabilities:		
Expected credit loss adjustment	-	(19,735)
FVTPL investments	(90,612)	(90,612)
FVOCI investments	(278,145)	(453,091)
Accelerated tax depreciation	(637)	-
Interest receivable	(145,454)	(171,005)
	(514,848)	(734,443)
Net deferred tax liability	(488,134)	(688,156)

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

	2019	2018
Accrued vacation	(442)	(885)
Interest receivable	(25,551)	(30,937)
Accelerated tax depreciation	10,903	(684)
Lease liability	20	-
	(15,070)	(32,506)

23. Share capital

	2019	2018
Authorised, issued and fully paid:		
150,000,000 ordinary shares of no par value	150,000	150,000

(expressed in thousands of Jamaican dollars unless otherwise stated)

24. 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:

	2019	2018
Balance at beginning of year	1,418,476	995,815
Reclassification impact of adopting IFRS 9	-	(362,448)
Less: deferred income taxes	-	90,612
	-	(271,836)
Impact of initial application of IFRS 9	-	155,736
Less: deferred income taxes	-	(38,934)
	-	116,802
	1,418,476	840,781
Net gains from changes in fair value	(271,475)	1,247,397
Less: deferred income taxes	67,868	(311,849)
	(203,607)	935,548
Net gains on disposal transferred to income	(428,306)	(400,341)
Less: deferred income taxes	107,077	100,085
	(321,229)	(300,256)
Expected credit loss adjustment	(40,027)	(76,796)
Less: deferred income taxes	10,007	19,199
	(30,020)	(57,597)
Balance at end of year	863,620	1,418,476

25. Pension scheme

The company participates in a defined benefit pension scheme operated by its parent company, the Bank of Nova Scotia Jamaica Limited (The Bank). The Bank has established a defined benefit pension scheme 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.

Accordingly, the company is not entitled to any surplus that may arise.

25. 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.

The company's contribution for the year totalled $Nil (2018: $Nil).

26. Insurance and financial risk management

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:

<u>Investment, Loans and Risk Committee</u>

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.

26. Insurance and financial risk management (continued)

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, currency risk and other price risk.

(a) Insurance risk

The company issues long term contracts that transfer insurance risk or financial risk or both. 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 if 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 across the board by a change in any subset of the portfolio.

Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life 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.

The company has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The company's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants.

i) 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 epidemics (such as AIDS) and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

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26. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

(i) Frequency and severity of claims (continued)

The company charges for mortality risks on a monthly basis for all 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 its mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured. The amounts at risk are fully retained.

	Total benefits assured			
	2019		2018	
	Before Reinsurance	%	Before Reinsurance	%
Individual life benefits assured per life:				
0 to 250,000	4,599,164	7	4,931,998	9
250,001 to 500,000	3,251,038	5	3,431,095	6
500,001 to 750,000	5,042,930	8	3,175,588	6
750,001 to 1,000,000	3,819,743	6	3,584,935	6
1,000,001 to 1,500,000	11,621,260	19	10,800,482	19
1,500,001 to 2,000,000	7,490,053	12	6,877,672	12
Over 2,000,000	26,112,095	43	23,894,213	42
	61,936,283	100	56,695,983	100

The tables below indicate the concentration of insured benefits across bands of company life insured benefits. The benefit insured figures are shown gross as reinsurance has not been considered due to immateriality.

	Total benefits assured			
	2019		2018	
	Before Reinsurance	%	Before Reinsurance	%
Group life benefits assured per life:				
0 to 250,000	11,476,248	11	10,601,839	12
250,001 to 500,000	4,805,824	4	4,200,816	5
500,001 to 750,000	8,440,812	8	5,479,432	6
750,001 to 1,000,000	6,346,649	6	4,843,861	6
1,000,001 to 1,500,000	22,572,733	21	16,017,565	18
1,500,001 to 2,000,000	15,697,553	15	13,479,776	15
Over 2,000,000	37,636,197	35	33,446,908	38
	106,976,016	100	88,070,197	100

26. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

(i) Frequency and severity of claims (continued)

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums or 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 these liabilities.

(ii) 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 the variability in policyholder behaviour.

Estimates are made as to 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.

(iii) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

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 subsequent year based on updated company 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 have changed. The financial impact of revisions to the valuation assumptions or the related margins is recognised in the accounting period in which the change is made.

See note 19(d) for detailed policy assumptions.

(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.

26. Insurance and financial risk management (continued)

(b) Reinsurance risk (continued)

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

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	Maximum retention of $420 for a single event; Treaty limits apply;
Group creditor life contracts	Maximum retention of $15,000 per insured.

(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 27(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.

26. Insurance and financial risk management (continued)

(c) Market risk (continued)

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company is not exposed to other price 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.

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.

The liquidity risk is summarised in note 27(b).

26. Insurance and financial risk management (continued)

(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 27(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 28(b) for details of the Dynamic Capital Adequacy Testing.

The operations of the company are subject 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.

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the company seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and dictated by the Insurance Regulations 2001.

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26. Insurance and financial risk management (continued)

(f) Capital risk management (continued)

Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 150% in 2010 and later. The MCCSR for the company as of December 31, 2019 and 2018 is set out below:

	2019	2018
Regulatory capital held	6,588,335	10,077,847
Minimum regulatory capital	1,475,140	1,441,449
MCCSR Ratio	446.6%	699.15%

27. Financial instruments

(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.

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.

	2019						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,768,811	270,231	-	-	-	185	2,039,227
Investment securities:							
Fair value through other comprehensive income	-	26,277,655	-	14,374,201	10,078,008	547,805	51,277,669
Fair value through profit or loss	-	-	-	-	1,632,124	378,225	2,010,349
Policy loans	1,223,753	-	-	-	-	545	1,224,298
	2,992,564	26,547,886	-	14,374,201	11,710,132	926,760	56,551,543
Policyholders' liabilities	39,781,781	3,928,235	9,214,864	-	-	(8,027,279)	44,897,601
Total interest rate sensitivity gap	(36,789,217)	22,619,651	(9,214,864)	14,374,201	11,710,132	8,954,039	11,653,942
Cumulative gap	(36,789,217)	(14,169,566)	(23,384,430)	(9,010,229)	2,699,903	11,653,942	-

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27. Financial instruments (continued)

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

	2018						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,349,938	4,217,880	-	-	-	6,132	5,573,950
Investment securities:							
Fair value through other comprehensive income	-	28,078,786	7,547,857	7,672,205	5,847,844	644,063	49,790,755
Fair value through profit or loss	-	-	-	-	1,643,493	328,526	1,972,019
Policy loans	1,394,609	-	-	-	-	996	1,395,605
	2,744,547	32,296,666	7,547,857	7,672,205	7,491,337	979,717	58,732,329
Policyholders' liabilities	39,051,652	3,719,670	9,423,425	-	-	(7,128,994)	45,065,753
Total interest rate sensitivity gap	(36,307,105)	28,576,996	(1,875,568)	7,672,205	7,491,337	8,108,711	13,666,576
Cumulative gap	(36,307,105)	(7,730,109)	(9,605,677)	(1,933,472)	5,557,865	13,666,576	-

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

	2019					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	0.87	1.02	-	-	-	0.88
Investment securities:						
Fair value through other comprehensive income	-	1.85	-	6.04	5.44	3.75
Fair value through profit or loss	-	-	-	-	11.00	11.00
Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	2.46	2.72	2.54	-	-	2.49

	2018					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	0.68	2.03	-	-	-	1.70
Investment securities:						
Fair value through other comprehensive income	-	2.18	7.80	6.41	8.95	4.32
Fair value through profit or loss	-	-	-	-	11.00	11.00
Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	2.71	3.01	2.98	-	-	2.69

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27. Financial instruments (continued)

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

(i) Sensitivity

Sensitivity to interest rate risk is considered by the company. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 28.

(ii) 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 – 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 observable 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 (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.

	2019		
	Level 1	Level 2	Total
Fair value through other comprehensive income	-	51,277,669	51,277,669
Fair value through profit or loss	-	2,010,349	2,010,349
	-	53,288,018	53,288,018

	2018		
	Level 1	Level 2	Total
Fair value through other comprehensive income	-	49,790,755	49,790,755
Fair value through profit or loss	-	1,972,019	1,972,019
	-	51,762,774	51,762,774

27. Financial instruments (continued)

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

Valuation techniques and significant unobservable inputs:

The following table shows the valuation technique used in measuring fair value in the level 2 hierarchy, as well as the significant unobservable input used.

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) Using this yield, determine price using accepted formula Apply price to estimate fair value.	Not applicable	Not applicable
Mutual Funds Premium Growth Fund (PGF) Regular	 PGF – Regular: The market unit value is determined by the investment house which the company uses to compute the estimated fair value.	Not applicable	Not applicable
Premium Growth Fund (PGF) AFFIRM Money Market Fund (MMF) AFFIRM Fixed Income Fund (FIF) AFFIRM	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.		

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27. Financial instruments (continued)

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

Valuation techniques and significant unobservable inputs (continued):

Financial assets not carried at fair value, and where carrying amounts approximate fair value, are not shown.

(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 and lease liability sre outstanding interest payments.

	2019			
	Within 3 months	3 to 12 months	1-2 years	Total
Financial Liabilities				
Policyholders' liabilities	43,581,970	9,220,237	-	52,802,207
Lease liability	2,974	8,923	992	12,889
Total	43,584,944	9,229,160	992	52,815,096

	2018			
	Within 3 months	3 to 12 months	1-2 years	Total
Financial Liabilities				
Policyholders' liabilities	42,881,600	9,701,096	-	52,582,696

(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, 2019, and 2018 based on Standard and Poor's ratings or their equivalent:

	2019	2018
BB to B-	53,214,036	55,349,326
Unrated	344,398	637,460
	53,558,434	55,986,786
Classified as follows:		
Certificate of deposits with the Bank of Jamaica	270,416	4,224,012
Financial assets at fair value through profit or loss	2,010,349	1,972,019
Financial assets at fair value through other comprehensive income	51,277,669	49,790,755
	53,558,434	55,986,786

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27. Financial instruments (continued)

(c) Credit risk (continued)

Maximum exposure to credit risk (continued)

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.

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:

	2019	**2018**
	12-month ECL	12-month ECL
	Stage 1	Stage 1
	Debt securities	Debt securities
Credit Rating:		
BB+	51,153,247	49,707,067
Financial adjustment on ECL	124,422	83,688
Carrying amount	**51,277,669**	**49,790,755**

27. Financial instruments (continued)

(c) Credit risk (continued)

Credit review process (continued)

Cash resources

The company held cash resources with 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.

The 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 2(i).

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.

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27. Financial instruments (continued)

(c) Credit risk (continued)

Measurement of ECL (continued)

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

	2019	2018
Balance at 1 January under IFRS 9	83,688	-
Adjustment on initial application of IFRS 9	-	3,927
Recognised in profit or loss	40,734	79,761
Balance as at 31 December	124,422	83,688

Debt securities

The following table summarises the company's credit exposure for debt securities at their carrying amounts, as categorised by issuer (see note 15):

	2019	2018
Government of Jamaica and Bank of Jamaica	52,819,198	51,052,036
Other financial institutions	344,398	627,050
	53,163,596	51,679,086
Add: financial adjustment on ECL	124,422	83,688
	53,288,018	51,762,774

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 mortgages over commercial and residential properties, charges over business assets, such as premises, inventories and accounts receivable, and charges over financial instruments such as debt securities and equities.

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 loan (or other financial asset) is individually assessed as impaired. Collateral generally is not held over balances with banks or brokers/dealers, 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, 2019 and December 31, 2018.

27. Financial instruments (continued)

(c) Credit risk (continued)

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

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.

28. Sensitivity analysis of actuarial liabilities and capital adequacy

(a) Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results. In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM);
- the investments allocated to back the liabilities;
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the appointed actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under the PPM methodology reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the company, are in descending order of impact:

- operating expenses and taxes
- lapses and withdrawals
- mortality and morbidity

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28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)

(a) Sensitivity arising from the valuation of life insurance contracts (continued)

The following shows the sensitivity of the liabilities to a change in assumptions:

	Change in assumptions	2019	2018
Interest rates	–1%	(37,090)	(14,950)
	+1%	80,002	58,590
Mortality	+10%	461,103	422,736
	–10%	(480,084)	(440,154)
Morbility	+10%	128,907	105,921
	-10%	(130,056)	(107,191)
Expenses	+10%	399,946	439,250
	–10%	(397,446)	(435,132)
Lapses and withdrawals	+10%	410,350	372,282
	–10%	(444,820)	(402,981)
Premium persistency	+10%	(10,179)	13,009
	-10%	10,261	13,062)

(b) 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.

28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)

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

A full DCAT report was completed for March 2019, based on the financial position of the company at December 31, 2018. 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 2019. 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 MCCSR ratio 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 MCCSR increases.

(iv) Expense risks

Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2019, for five years. Overall, this scenario produces a higher MCCSR ratio over the 5-year period.

(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 ultimately decreases to 0.5%. Overall, this scenario produces a lower MCCSR 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 MCCSR.

(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 MCCSR ratio falls.

(viii) Low sales

This scenario assumed sales were 20% less every year starting in 2019. Fees are also higher than under the base scenario. Overall this scenario produces a reduced surplus but the MCCSR improves.

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28. Sensitivity analysis of actuarial liabilities and capital adequacy (continued)

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

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.

	2019		2018	
	Surplus	MCCSR	Surplus	MCCSR
Base	16,753,340	968%	17,047,149	991%
Variable				
Mortality risks	16,360,938	978%	16,707,102	1,006%
Low lapse rates	18,184,158	855%	18,587,009	901%
Higher lapse rates	13,332,636	1,544%	13,662,601	1,528%
Expense risks	16,009,675	972%	16,320,528	1,005%
Low interest rate	11,160,334	655%	15,974,184	898%
High Interest rate	7,892,057	494%	15,464,197	823%
High sales growth	17,145,032	919%	17,615,868	949%
Low sales	15,767,163	1,014%	15,985,851	1040%

29. 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.

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(expressed in thousands of Jamaican dollars unless otherwise stated)

30. 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 2019	Total 2018
Insurance products	-	-	-	13,986	13,986	10,731
Mortgage back repurchase agreement	-	-	-	-	-	333,333
Interest earned on resale agreements	-	-	-	-	-	(1,388)
Interest paid on resale agreements	-	2,288	-	-	2,288	14,289
Interest earned on mortgage backed repurchase agreement	-	-	(11,055)	-	(11,055)	(37,516)
Due from banks and other financial Institutions	-	1,768,811	344,399	-	2,113,210	1,644,637
Interest earned from banks and other financial institutions	-	(11,446)	-	-	(11,446)	(7,664)
Management fees received	-	-	(233,305)	-	(233,305)	(191,618)
Management fees paid	69,530	47,718	-	-	117,248	156,387
Other operating expenses	4,800	18,828	27,816	-	51,444	39,412
Commission on securities investments	-	5,926	-	-	5,926	2,857
	-	-	(428,305)	-	(428,305)	(400,341)

Key management compensation

	2019	2018
Salaries and other short term benefits	90,291	90,244
Post-employment benefits and allowances	8,358	7,381

31. 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 $12,647,569 (2018: $10,353,394).

32. Dividends

	2019	2018
First interim dividend	591,308	442,128
Second interim dividend	268,802	269,849
Third interim dividend	338,057	282,115
Fourth interim dividend	494,738	342,465
Special dividend	2,300,000	-
	3,992,905	1,336,557