SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scotia Jamaica Life Insurance Company Limited ("the company"), set out on pages 5 to 52, which comprise the statement of financial position as at December 31, 2017, 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, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 (CONT'D)

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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INDEPENDENT AUDITORS' REPORT (CONT'D)

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.

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INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on Additional Matters as Required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

KPMG

Chartered Accountants
Kingston, Jamaica

February 20, 2018

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
December 31, 2017
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Income			
Premium income, net of reinsurance	5	1,832,787	1,754,682
Investment income	6	3,560,291	3,588,620
Fee and commission income, net	7	515,516	464,262
Realised gains, net	8	473,331	232,915
		6,381,925	6,040,479
Policyholders' benefits and expenses			
Policyholders' benefits and reserves	9	557,872	1,485,470
Salaries, pension contributions and other staff benefits	10	479,840	476,279
Property expenses, including depreciation		61,312	61,985
Other operating expenses		540,613	472,590
		1,639,637	2,496,324
Profit before taxation	11	4,742,288	3,544,155
Taxation	12	(1,206,755)	(855,505)
Net profit		3,535,533	2,688,650
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gains on available-for-sale financial assets		(469,381)	(152)
Unrealised gains on available-for-sale financial assets		998,749	327,984
Deferred income tax relating to components of other comprehensive income	13	(132,342)	(82,038)
Other comprehensive income for the year, net of tax		397,026	245,794
Total comprehensive income for the year		3,932,559	2,934,444

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

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Financial Position
Year ended December 31, 2017
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica - maturing within 90 days of the original purchase date	14	-	1,301,413
Accounts with parent company	14	1,233,418	503,316
		1,233,418	1,804,729
Certificate of deposits with the Bank of Jamaica - maturing in excess of 90 days from the original purchase date		661,061	201,105
		1,894,479	2,005,834
Government securities purchased under resale agreements	15	-	701,742
Investment securities	16		
Available for sale		52,338,230	46,782,862
Held to maturity		1,028,804	5,307,644
Financial assets at fair value through profit or loss		-	155,601
		53,367,034	52,246,107
Loans and receivables - Policy loans	17	1,625,365	1,630,248
Other assets			
Property, plant and equipment	18	8,537	10,934
Intangible assets, computer software	2(t),19	83,481	78,796
Taxation recoverable		974,831	809,973
Other assets		1,324	809
		1,068,173	900,512
		57,955,051	57,484,443
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	20	44,780,291	44,988,803
Other liabilities			
Sundry liabilities	21	227,199	142,644
Taxation payable		281,643	90,603
Deferred tax liabilities	22	529,079	351,176
		1,037,921	584,423
Shareholders' equity			
Share capital	23	150,000	150,000
Cumulative re-measurement result from available for sale financial assets	24	995,815	598,789
Unappropriated profits		10,991,024	11,162,428
		12,136,839	11,911,217
		57,955,051	57,484,443

The financial statements on pages 5 to 52 were approved for issue by the Board of Directors on February 20, 2018 and signed on its behalf by:

David Noel — Director

Noel Foster — Director

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, 2017
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital (Note 23)	Cumulative re-measurement result from available for sale financial assets (Note 24)	Unappropriated profits	Total
Balances at December 31, 2015		150,000	352,995	12,243,701	12,746,696
Net profit for the year		-	-	2,688,650	2,688,650
Other comprehensive income	13	-	245,794	-	245,794
Dividends	32	-	-	(3,769,923)	(3,769,923)
Balances at December 31, 2016		150,000	598,789	11,162,428	11,911,217
Net profit for the year		-	-	3,535,533	3,535,533
Other comprehensive income	13	-	397,026	-	397,026
Dividends	32	-	-	(3,706,937)	(3,706,937)
Balances at December 31, 2017		150,000	995,815	10,991,024	12,136,839

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2017
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2017	2016
Cash flows from operating activities			
Net profit for the year		3,535,533	2,688,650
Items not affecting cash:			
Investment income	6	(3,560,291)	(3,588,620)
Interest credited to policyholders and annuitants	9	1,510,899	1,679,022
Transfer from actuarial reserves	9	(1,162,386)	(353,251)
Taxation	12	1,206,755	855,505
Amortisation	19	2,001	2,335
Depreciation	18	3,162	7,314
		1,535,673	1,290,955
Changes in operating assets and liabilities			
Taxation recoverable		(164,858)	464,991
Other assets		(515)	(315)
Policyholders' liabilities		(557,025)	331,459
Other liabilities		84,555	1,625
		897,830	2,088,715
Interest received		3,373,869	3,686,646
Income tax paid		(970,154)	(924,239)
Net cash provided by operating activities		3,301,545	4,851,122
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(765)	-
Purchase of intangible asset	19	(6,686)	(29,708)
Investment securities, net		(405,447)	(1,696,321)
Loans and receivables – Policy loans		6,099	(221,599)
Certificate of deposits with the Bank of Jamaica		(457,792)	680,215
Net cash used in investing activities		(864,591)	(1,267,413)
Net cash provided before dividend payments			
Dividends paid	32	(3,706,937)	(3,769,923)
Net decrease in cash and cash equivalents		(1,269,983)	(186,214)
Cash and cash equivalents at beginning of year		2,503,401	2,689,615
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	1,233,418	2,503,401

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").

New, revised and amended standards and interpretations that became effective during the year:

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

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

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 became effective during the year (continued):

- Amendments to IAS 12 (continued)

  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

  The adoption of the amendment has not resulted in any changes to the amounts recognised presented or disclosed in the financial statements.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

  The adoption of the amendment has not resulted in any changes to the amounts recognised presented or disclosed in the financial statements.

New and revised standards and interpretations that are not yet effective:

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. The company is assessing them and has determined that the following are relevant to its financial statements.

- IFRS 9, *Financial Instruments,* which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

  The company is assessing the impact that this standard will have on its 2018 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes,* IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services.* It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The Company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

  There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

  The Company is assessing the impact that this standard will have on its 2018 financial statements.

- IFRS 16, *Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

  The Company is assessing the impact that this standard will have on its 2019 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

- Amendments to IFRS 4, *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 17, *Insurance Contracts* (effective January 1, 2021) as follows:

  (i) Temporary exemption from IFRS 9:

  - Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement.*
  - To qualify, a reporting company's activities need to be predominantly connected with insurance.

  Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

  (ii) Overlay approach:

  For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

  There will be new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

  The Company is assessing the impact that this amendment will have on its financial statements.

- IFRS 17, *Insurance Contracts*, effective for accounting periods beginning on or after January 1, 2021, 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 contract 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 (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 and revised standards and interpretations that are not yet effective (continued):

- IFRS 17, *Insurance Contracts (continued)*

  The key principles in IFRS 17 are that an entity (continued):

  - recognises and measures groups 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); and

    b) an amount representing the unearned profit in the group of contracts (the contractual service margin).

  - recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognizes the loss immediately;

  - presents separately insurance revenue (that excludes the receipt of repayment of any investment components) and insurance finance income or expenses; and

  - 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 kept 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 this standard will have on its 2021 financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(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. 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(ii). These liabilities are, on valuation, adjusted through profit or loss to reflect the valuation determined under the Policy Premium Method.

2. Summary of significant accounting policies (continued)

(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 20 (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) Interest income

Interest income is recognised in profit or loss for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortization of premium on instruments bought at a premium.

(iii) Fee and commission income

Fees for retirement planning administration services are recognised as revenue over the period in which the related services are performed.

(iv) Realised gains and losses

Realised gains and losses 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.

2. Summary of significant accounting policies (continued)

(e) Interest expense

Interest expense is recognised in profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

(f) 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.

(g) Claims

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

(h) 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.

(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.

2. Summary of significant accounting policies (continued)

(i) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, investment securities, government securities purchased under resale agreements, loans and receivables, other assets, policyholders' liabilities and other liabilities.

The fair values of the company's financial instruments are discussed in Note 27 and 29.

(i) Recognition

The company initially recognises deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date, at which the company becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred financial assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(j) Investment securities

The company classifies its investment securities into the following categories: loans and receivables, held to maturity and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money or services directly to a debtor with no intention of trading the receivable.

2. Summary of significant accounting policies (continued)

(j) Investment securities (continued)

(ii) Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These investments are initially recognised at cost with transaction costs directly attributable included. After initial measurement, held to maturity financial assets are measured at amortised cost using the effective interest rate method. Were the company to sell other than an insignificant amount of held to maturity investments before maturity, the entire category would be compromised and reclassified as available for sale.

(iii) Available for sale

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in the above two categories, they are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates or market prices. They are remeasured at fair value.

On disposal of these investments, the unrealized gains or losses included in shareholders' equity are included in profit or loss. Interest income, which is calculated using the effective interest method, is recognised in profit and loss. Other unrealized gains and losses arising from changes in fair value are recognised in other comprehensive income.

Purchases and sales of available for sale assets are recognised at the settlement date - the date on which an asset is delivered to or by the company. Financial assets are initially recognized at fair value plus transaction costs.

(k) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreement using the effective yield method.

(l) Impairment of assets

The carrying amounts of the company's 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 at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount.

2. Summary of significant accounting policies (continued)

(l) Impairment of assets (continued)

Indication that a financial asset is impaired includes observable data that comes to the attention of the company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer will enter bankruptcy or other financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Impairment losses are recognised in the company's profit or loss.

(i) Financial assets carried at amortised cost

The amount of the impairment loss for an asset carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. If a held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The recoverable amount of the company's assets at amortised cost is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

(ii) Financial assets carried at fair value

When a decline in the fair value of an available for sale financial asset has been recognised as other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit and loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is recognised in other comprehensive income is the difference between the acquisition cost and current fair value less any impairment loss on that financial asset previously recognised.

The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iii) Other financial assets

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

In–house assessment of the company's assets revealed no negative material changes and hence, it was not necessary to account for any impairment losses in the company's accounts.

2. Summary of significant accounting policies (continued)

(m) 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.

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.

(n) 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.

(o) 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.

2. Summary of significant accounting policies (continued)

(o) Related parties (continued)

(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 group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group 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 group 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.

(p) 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).

(q) 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.

(r) Dividends

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

2. Summary of significant accounting policies (continued)

(s) Fiduciary activities

The company acts as an administrator of an approved retirement scheme and therefore manages assets on behalf of plan members. These assets are unitised and income earned belongs to the plan members with the company incurring no risk. Therefore, these assets are segregated and presented separately from these financial statements. Income earned from management fees is included in fee and commission income in profit or loss.

(t) 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.

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) Held to maturity investments

The company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these investments to maturity other than in the specific permissible circumstances - for example, selling other than an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held to maturity investments is compromised, the carrying value would increase/(decrease) by $191 (2016: $16,598) with a corresponding entry in the cumulative re-measurement result from available for sale financial assets reserve.

(ii) 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

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

(ii) Estimate of future payments and premiums arising from long-term insurance contracts (continued)

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

These estimates are more fully described in Note 20(d).

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

	2017	2016
Gross written premium		
Individual life	528,246	482,147
Group life	1,285,990	1,261,267
Universal life	19,412	12,430
	1,833,648	1,755,844
Reinsurance	(861)	(1,162)
	1,832,787	1,754,682

6. Investment income

	2017	2016
Investment securities	3,297,942	3,320,472
Certificate of deposits with the Bank of Jamaica	104,940	107,031
Interest on policy loans	117,083	109,125
Government securities purchased under resale agreement	34,943	46,788
Other bank balances	5,383	5,204
	3,560,291	3,588,620

(expressed in thousands of Jamaican dollars unless otherwise stated)

7. Fee and commission income, net

	2017	2016
Management and administration fees	159,033	129,094
Investment commissions paid	(3,362)	(2,929)
Surrender charges and other contract fees	46,656	39,849
Policy administrative fees	313,189	298,248
	515,516	464,262

8. Realised gains, net

	2017	2016
Foreign exchange	3,950	232,763
Gain/(loss) on disposal of available for sale securities	469,381	152
	473,331	232,915

9. Policyholders' benefits and reserves

	2017	2016
Policyholders' benefit payments	209,359	159,699
Interest credited – policyholders	1,493,158	1,664,096
Interest credited – annuitants	17,741	14,926
Transfer from actuarial reserves	(1,162,386)	(353,251)
	557,872	1,485,470

10. Salaries, pension contributions and other staff benefits

	2017	2016
Wages and salaries	378,071	375,760
Statutory contributions	36,808	36,722
Pension cost (note 25)	298	325
Other staff benefits	64,663	63,472
	479,840	476,279

11. Profit before taxation

In arriving at the profit before taxation, the following are among the items that have been charged:

	2017	2016
Auditors' remuneration	7,741	7,940
Depreciation (note 18)	5,163	9,649
Directors' emoluments:		
Fees and expenses	4,422	5,350
Management remuneration	26,243	14,406
Policyholders' fund interest (note 9)	1,493,158	1,664,096
Interest on annuities (note 9)	17,741	14,926
Salaries, pension contributions and other staff benefits (note 10)	479,840	476,279

(expressed in thousands of Jamaican dollars unless otherwise stated)

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:

	2017	2016
Current income tax:		
Income tax at 25%	1,161,194	883,192
Deferred income tax (note 22)	45,561	(27,687)
	1,206,755	855,505

(b) Reconciliation of effective tax rate:

	2017	2016
Profit before taxation	4,742,288	3,544,155
Tax calculated at 25%	1,185,572	886,039
Adjustment for the effect of:		
Asset tax paid	34,049	33,386
Expenses disallowed/income exempt for tax purposes	4,826	(42,147)
Other charges and allowances	(17,692)	(21,773)
	1,206,755	855,505

13. Deferred income tax effects relating to other comprehensive income

	2017		
	Before tax amount	Tax (expense)	Net of tax
Available for sale financial assets	529,368	(132,342)	397,026

	2016		
	Before tax amount	Tax (expense)	Net of tax
Available for sale financial assets	327,832	(82,038)	245,794

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December 31, 2017
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14. Cash and cash equivalents

	2017	2016
Cash resources	1,894,479	2,005,834
Less amounts not considered cash and cash equivalents:		
Due from banks greater than ninety days	(657,578)	(199,786)
Accrued interest	(3,483)	(2,647)
	1,233,418	1,803,401
Add other cash equivalent balances:		
Government Securities purchased under resale agreement less than ninety days	-	700,000
	1,233,418	2,503,401
Cash and cash equivalent is comprised of:		
Cash and balances with Bank of Jamaica	-	1,301,413
Accounts with parent company	1,233,418	503,316
Government Securities purchased under resale agreement	-	700,000
Accrued interest	-	(1,328)
	1,233,418	2,503,401

15. Government securities purchased under resale agreements

The company entered into reverse repurchase agreements collaterised by the Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparties to these transactions are unable to fulfill their contractual obligations. Included in this balance is interest receivable of $Nil (2016: $1,742).

The fair value of collateral held pursuant to reverse repurchase agreements is $Nil (2016: $735,264).

16. Investment securities

	2017	2016
Available for sale:		
Premium Growth Fund	149,956	652,831
Money Market Fund	57,110	56,187
Fixed Income Fund	62,899	59,234
Debt securities	51,275,782	43,336,531
USD Treasury bill	-	2,118,048
Interest receivable	792,483	560,031
	52,338,230	46,782,862
Held to maturity:		
Debt securities	1,017,000	5,249,500
Interest receivable	11,804	58,144
	1,028,804	5,307,644
Financial assets at fair value through profit or loss	-	155,601
	53,367,034	52,246,107

(expressed in thousands of Jamaican dollars unless otherwise stated)

16. Investment securities (continued)

	Available for sale	Held to maturity	Financial asset at fair value through profit or loss	Total
December 31, 2015	40,804,216	9,298,337	218,560	50,321,113
Purchases	10,071,600	-	-	10,071,600
Maturities	(1,287,644)	(3,879,900)	-	(5,167,544)
Disposals	(3,200,000)	-	-	(3,200,000)
Amortisation adjustment	55,225	-	-	55,225
Accrued interest adjustment	11,785	(110,793)	-	(99,008)
Fair value net gains	327,680	-	(62,959)	264,721
December 31, 2016	46,782,862	5,307,644	155,601	52,246,107
Purchases	24,168,234	-	-	24,168,234
Maturities	(8,358,954)	(4,232,500)	-	(12,591,454)
Disposals	(11,450,000)	-	-	(11,450,000)
Amortisation adjustment	434,373	-	-	434,373
Accrued interest adjustment	232,452	(46,340)	-	186,112
Fair value net gains	529,263	-	(155,601)	373,662
December 31, 2017	52,338,230	1,028,804	-	53,367,034

Included in investment securities are Government of Jamaica local registered stocks valued at $90,000 (2016: $90,000) which have been deposited with the Regulator, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations, 2001.

Available for sale investments include holdings in Scotia Investments Jamaica Limited funds as follows:

	2017		2016	
	Units	Unit price	Units	Unit price
Premium Growth Fund	-	-	7,221,000	75.35
Premium Growth Fund	478,925	313.11	478,925	227.08
Money Market Fund	500,000	114.22	500,000	112.37
Fixed Income Fund	485,667	129.51	485,667	121.97

17. Policy loans

	2017	2016
Principal	1,568,161	1,574,260
Accrued interest	57,204	55,988
	1,625,365	1,630,248

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18. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture fixtures and equipment	Total
Cost:				
December 31, 2015 and December 31, 2016	7,861	36,373	36,051	80,285
Additions	-	765	-	765
December 31, 2017	7,861	37,138	36,051	81,050
Accumulated depreciation:				
December 31, 2015	7,861	28,787	25,389	62,037
Charge for the year	-	5,204	2,110	7,314
December 31, 2016	7,861	33,991	27,499	69,351
Charge for the year	-	1,574	1,588	3,162
December 31, 2017	7,861	35,565	29,087	72,513
Net book values:				
December 31, 2017	-	1,573	6,964	8,537
December 31, 2016	-	2,382	8,552	10,934
December 31, 2015	-	7,586	10,662	18,248

19. Intangible assets

	Software	Software Work in progress	Total
Cost:			
December 31, 2015	-	51,423	51,423
Additions	-	29,708	29,708
Transfers	8,003	(8,003)	-
December 31, 2016	8,003	73,128	81,131
Additions	-	6,686	6,686
December 31, 2017	8,003	79,814	87,817
Accumulated depreciation:			
December 31, 2015	-	-	-
Charge for the year	2,335	-	2,335
December 31, 2016	2,335	-	2,335
Charge for the year	2,001	-	2,001
December 31, 2017	4,336	-	4,336
Net book values:			
December 31, 2017	3,667	79,814	83,481
December 31, 2016	5,668	73,128	78,796
December 31, 2015	-	51,423	51,423

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20. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

	2017	2016
Policyholders' fund	51,050,699	50,266,672
Benefits and claims payable	199,950	155,129
Unprocessed premiums	12,271	4,667
Annuities	504,145	386,722
Insurance risk reserve - Individual life	(7,870,046)	(6,524,957)
- Individual A&S	305,760	187,544
- Group life	518,898	519,604
- Whole life	86,203	39,794
- Universal life	(27,589)	(46,372)
	44,780,291	44,988,803

(b) Change in policyholders' liabilities:

	2017	2016
Policyholders' fund:		
At beginning of the year	50,266,672	48,383,225
Gross premiums	5,183,003	5,924,056
Benefits and claims	(5,892,134)	(5,704,705)
Interest credited	1,493,158	1,664,096
At end of the year	51,050,699	50,266,672
Benefits and claims payable:		
At beginning of the year	155,129	191,596
Policyholders' claims and benefits	254,180	123,232
Benefits and claims paid	(209,359)	(159,699)
At end of the year	199,950	155,129
Unprocessed premiums:		
At beginning of the year	4,667	25,998
Premiums received	7,471,149	8,147,239
Premiums applied	(7,463,545)	(8,168,570)
At end of the year	12,271	4,667

	2017		
	Individual	Group	Total
Insurance risk reserve:			
At beginning of the year	(6,343,991)	519,604	(5,824,387)
Changes in product and assumptions	(1,143,826)	(430)	(1,144,256)
Normal changes	(17,855)	(276)	(18,131)
At end of the year	(7,505,672)	518,898	(6,986,774)

	2016		
	Individual	Group	Total
Insurance risk reserve:			
At beginning of the year	(6,044,956)	573,819	(5,471,137)
Changes in product and assumptions	(290,698)	(45,647)	(336,345)
Normal changes	(8,337)	(8,568)	(16,905)
At end of the year	(6,343,991)	519,604	(5,824,387)

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20. Policyholders liabilities (continued)

(c) Investments and other assets supporting policy liabilities:

	2017				
	Individual Insurance	Group Insurance	Individual Annuities	Capital and Surplus	Total
Debt securities -					
Available for sale	42,109,040	519,264	308,853	9,131,108	52,068,265
Held to maturity	1,028,804	-	-	-	1,028,804
Certificate of deposits with the Bank of Jamaica	458,435	-	202,626	-	661,061
Mutual Funds	-	-	-	269,965	269,965
	43,596,279	519,264	511,479	9,401,073	54,028,095

	2016				
	Individual Insurance	Group Insurance	Individual Annuities	Capital and Surplus	Total
Debt securities -					
Available for sale	36,575,285	533,495	276,086	8,629,744	46,014,610
Held to maturity	5,295,518	-	12,126	-	5,307,644
Financial assets at fair value through profit or loss	-	-	-	155,601	155,601
Certificate of deposits with the Bank of Jamaica	1,401,725	-	100,793	-	1,502,518
Mutual Funds	-	-	-	768,252	768,252
Government securities purchased under resale agreements	701,742	-	-	-	701,742
	43,974,270	533,495	389,005	9,553,597	54,450,367

(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.

20. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(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 5.81% in January 2018 decreasing to 5.00% over 20 years.

For Criticare and WholeLife the Actuary has assumed a portfolio rate of 7.34% in January 2018 decreasing to 4.75% by 2045.

Assumed interest rates are net of asset tax and have been decreased by 0.50% 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.

(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 5.0% in January 2018 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

20. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(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.

21. Sundry liabilities

	2017	2016
Accrued charges	184,299	97,213
Accrued vacation	21,450	19,548
Statutory deductions	19,788	24,508
Other	1,662	1,375
	227,199	142,644

22. Deferred tax assets and 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%.

(expressed in thousands of Jamaican dollars unless otherwise stated)

22. Deferred tax assets and liabilities (continued)

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

	2017	2016
Balance at beginning of year	351,176	296,825
Recognised in profit for the year [note 12(a)]	45,561	(27,687)
Recognised in other comprehensive income		
Available for sale investments		
- fair value re-measurement (note 13)	132,342	82,038
Balance at end of year	529,079	351,176

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

	2017	2016
Deferred income tax asset:		
Accrued vacation	5,363	4,887
Deferred income tax liabilities:		
Accelerated tax depreciation	(534)	(798)
Available for sale investments	(331,966)	(199,624)
Interest receivable	(201,942)	(155,641)
	(534,442)	(356,063)
Net deferred tax liability	(529,079)	(351,176)

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

	2017	2016
Accrued vacation	(476)	(443)
Interest receivable	46,301	(26,993)
Accelerated tax depreciation	(264)	(251)
	45,561	(27,687)

23. Share capital

	2017	2016
Authorised, issued and fully paid:		
150,000,000 ordinary shares of no par value	150,000	150,000

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24. Cumulative re-measurement result from available for sale financial assets

This represents the unrealised surplus or deficit on the revaluation of available for sale investments as follows:

	2017	2016
Balance at beginning of year	598,789	352,995
Net gains from changes in fair value	998,749	327,984
Less: deferred income taxes	(249,687)	(82,076)
	749,062	245,908
Net gains on disposal transferred to income	(469,381)	(152)
Less: deferred income taxes	117,345	38
	(352,036)	(114)
Balance at end of year	995,815	598,789

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.

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 $298 (2016: $325).

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:

Investment, Loans and Risk Committee

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

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

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.

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26. Insurance and financial risk management (continued)

(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.

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.

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26. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

(i) Frequency and severity of claims (cont'd)

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			
	2017		2016	
	Before Reinsurance	%	Before Reinsurance	%
Individual life benefits assured per life:				
0 to 250,000	5,266,635	10	5,766,994	11
250,001 to 500,000	2,787,029	5	2,426,784	5
500,001 to 750,000	3,066,149	6	3,305,060	6
750,001 to 1,000,000	3,340,186	6	3,421,091	7
1,000,001 to 1,500,000	9,774,853	19	9,859,660	19
1,500,001 to 2,000,000	6,068,254	12	6,122,419	12
Over 2,000,000	22,117,031	42	21,296,905	40
	52,420,137	100	52,198,913	100

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

	Total benefits assured			
	2017		2016	
	Before Reinsurance	%	Before Reinsurance	%
Group life benefits assured per life:				
0 to 250,000	11,246,244	13	12,124,029	14
250,001 to 500,000	4,574,235	5	5,031,489	6
500,001 to 750,000	5,130,951	6	5,695,220	7
750,001 to 1,000,000	4,354,444	5	4,759,146	5
1,000,001 to 1,500,000	15,430,489	18	16,928,535	19
1,500,001 to 2,000,000	13,344,207	16	13,389,118	15
Over 2,000,000	30,499,093	37	29,382,646	34
	84,579,663	100	87,310,183	100

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.

26. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

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

26. Insurance and financial risk management (continued)

(b) Reinsurance risk (continued)

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.

Effective July 1, 2017, the coverage was discontinued.

(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).

26. Insurance and financial risk management (continued)

(c) Market risk (continued)

(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.

(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.

26. Insurance and financial risk management (continued)

(d) Liquidity risk (continued)

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

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

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

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

(e) Credit risk

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

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

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

The credit risk is summarised in note 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.

(expressed in thousands of Jamaica dollars unless otherwise stated)

26. Insurance and financial risk management (continued)

(f) Capital risk management (continued)

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. 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, 2017 and 2016 is set out below:

	2017	2016
Regulatory capital held	8,153,701	8,572,971
Minimum regulatory capital	1,386,439	1,556,336
MCCSR Ratio	588.10%	551.00%

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, liabilities and equity in order to arrive at the company's interest rate gap based on earlier of contractual repricing and maturity dates.

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27. Financial instruments (continued)

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

	2017						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,233,418	-	657,578	-	-	3,483	1,894,479
Investment securities:							
Available for sale	-	31,049,618	333,881	13,560,650	6,331,633	1,062,448	52,338,230
Held to maturity	-	1,017,000	-	-	-	11,804	1,028,804
Loans and receivables	1,623,691	-	-	-	-	1,674	1,625,365
Intangible assets	-	-	-	-	-	83,481	83,481
Property, plant and equipment	-	-	-	-	-	8,537	8,537
Other assets	-	-	-	-	-	1,324	1,324
Taxation recoverable (Withholding Taxes)	-	-	-	-	-	974,831	974,831
Total assets	2,857,109	32,066,618	991,459	13,560,650	6,331,633	2,147,582	57,955,051
Policyholders' liabilities	37,210,822	3,889,362	9,950,515	-	-	(6,270,408)	44,780,291
Taxation payable (Income Taxes)	-	-	-	-	-	281,643	281,643
Sundry liabilities	-	-	-	-	-	227,199	227,199
Deferred tax liabilities	-	-	-	-	-	529,079	529,079
Shareholders' equity	-	-	-	-	-	12,136,839	12,136,839
Total liabilities and shareholders' equity	37,210,822	3,889,362	9,950,515	-	-	6,904,352	57,955,051
Total interest rate sensitivity gap	(34,353,713)	28,177,256	(8,959,056)	13,560,650	6,331,633	(4,756,770)	-
Cumulative gap	(34,353,713)	(6,176,457)	(15,135,513)	(1,574,863)	4,756,770	-	-

	2016						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Total assets	2,131,402	35,133,471	7,356,893	7,870,741	2,698,446	2,293,490	57,484,443
Total liabilities and shareholders' equity	36,108,765	4,022,709	10,521,921	-	-	6,831,048	57,484,443
Total interest rate sensitivity gap	(33,977,363)	31,110,762	(3,165,028)	7,870,741	2,698,446	(4,537,558)	-
Cumulative gap	(33,977,363)	(2,866,601)	(6,031,629)	1,839,112	4,537,558	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Financial instruments (continued)

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

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

	2017					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	0.57	-	7.72	-	-	3.06
Investment securities						
- Available for sale	-	4.97	7.75	7.63	10.53	6.28
- Held to maturity	-	5.23	-	-	-	5.23
Loans and receivables –						
Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	2.71	3.66	2.97	-	-	2.68

	2016					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted average
	%	%	%	%	%	%
Cash resources	1.28	4.99	6.26	-	-	3.95
Investment securities						
- Available for sale	-	5.47	7.49	9.23	11.43	6.58
- Held to maturity	-	6.11	7.50	-	-	7.23
Financial assets at fair value through profit or loss	-	-	-	7.25	-	7.25
Government securities purchased under resale agreements	-	5.43	-	-	-	5.43
Loans and receivables –						
Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	3.07	3.99	3.45	-	-	3.26

(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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Financial instruments (continued)

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

(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.

	2017		
	Level 1	Level 2	Total
Available for sale financial assets			
Debt Securities	-	52,068,265	52,068,265
Mutual Funds	-	269,965	269,965
	-	52,338,230	52,338,230

	2016		
	Level 1	Level 2	Total
Available for sale financial assets			
Debt Securities	2,118,048	43,896,562	46,014,610
Mutual Funds	-	768,252	768,252
	2,118,048	44,664,814	46,782,862
Fair value through profit or loss			
Debt securities	-	155,601	155,061

27. Financial instruments (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		Not applicable	Not applicable
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.		
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.		

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

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27. Financial instruments (continued)

(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.

	2017		
	Within 3 months	3 to 12 months	Total
Financial Liabilities			
Policyholders' liabilities	41,747,876	10,250,225	51,998,101

	2016		
	Within 3 months	3 to 12 months	Total
Financial Liabilities			
Policyholders' liabilities	40,293,934	10,933,561	51,227,495

(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, 2017, and 2016 based on Standard and Poor's ratings or their equivalent:

	2017	2016
AAA to AA+	-	2,118,048
BB to BB-	53,082,283	49,845,998
Unrated	675,847	1,016,329
	53,758,130	52,980,375
Classified as follows:		
Certificate of deposits with the Bank of Jamaica	661,061	1,502,518
Financial assets at fair value through profit or loss	-	155,601
Investment securities:		
Available for sale	52,068,265	46,014,610
Held to maturity	1,028,804	5,307,644
	53,758,130	52,980,373

The company issues policy loans to ScotiaMint policyholders. These loans are fully secured by the outstanding ScotiaMint fund values and as such no credit risk arises.

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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

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

	Change in assumptions	2017	2016
Interest rates	–1%	17,572	48,474
	+1%	24,667	(6,887)
Mortality	+10%	454,091	433,981
	–10%	(470,071)	(450,026)
Expenses	+10%	492,910	397,437
	–10%	(487,631)	(392,866)
Lapses and withdrawals	+10%	320,620	267,583
	–10%	(347,112)	(288,975)

(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.

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

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

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
- and to describe possible courses of action to address these threats.

A full DCAT report was completed for March 2017, based on the financial position of the company at December 31, 2016. 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 2017. 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 2017, for five years. Overall, this scenario produces a lower 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 .5%. Overall, this scenario produces a relatively unchanged MCCSR over the five year period.

(expressed in thousands of Jamaican dollars unless otherwise stated)

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

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

(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 2017. Fees are also lower than under the base scenario. Overall this scenario produces a reduced surplus but the MCCSR improves.

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

	2017		2016	
	Surplus	MCCSR	Surplus	MCCSR
Base	14,964,882	661%	15,757,936	758%
Variable				
Mortality risks	14,532,000	663%	15,361,488	769%
Low lapse rates	16,269,256	592%	17,286,548	671%
Higher lapse rates	12,696,181	1,016%	13,309,650	1,225%
Expense risks	14,337,672	665%	15,226,680	771%
Low interest rate	14,273,513	590%	15,886,139	752%
High Interest rate	13,589,784	582%	13,641,339	642%
High sales growth	15,510,328	629%	16,183,088	710%
Low sales	13,876,166	691%	14,827,108	808%

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.

29. Fair value of financial instruments (continued)

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 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.

The following table summarises the carrying amount and fair value of financial assets not presented on the company's statement of financial position at their fair value.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Investment securities:				
- Held to maturity	1,028,804	1,028,995	5,307,644	5,324,242

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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

30. Related party transactions and balances (continued)

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 2017	Total 2016
Insurance products	-	-	-	9,785	9,785	17,798
Mortgage back repurchase agreement	-	-	671,223	-	671,223	1,009,587
Securities purchased under resale agreements	-	-	-	-	-	700,000
Interest earned on resale agreements	-	-	(35,981)	-	(35,981)	(46,787)
Interest paid on repurchase Agreement	-	1,038	-	-	1,038	-
Interest earned on mortgage backed repurchase agreement	-	-	(62,702)	-	(62,702)	(76,288)
Due from banks and other financial institutions	-	1,233,418	269,965	-	1,503,383	1,271,569
Interest earned from banks and other financial institutions	-	(5,383)	-	-	(5,383)	(5,203)
Management fees received	-	-	(159,066)	-	(159,066)	(129,124)
Management fees paid	71,205	52,400	-	-	123,605	146,533
Other operating expenses	6,019	11,777	20,129	-	37,925	36,858
Loss on disposal of investment	-	5,578	-	-	5,578	2,777
Commission on securities	-	3,362	-	-	3,362	
Profit from sale of investments	-	(182)	(476,941)	-	(477,123)	-

Key management compensation

	2017	2016
Salaries and other short term benefits	66,332	61,189
Post-employment benefits and allowances	4,950	5,385

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 $8,446,156 (2016: $6,623,706).

32. Dividends

	2017	2016
First interim dividend	380,300	804,899
Second interim dividend	456,261	379,043
Third interim dividend	417,884	1,334,674
Fourth interim dividend	451,492	1,251,307
Special dividend	2,001,000	-
	3,706,937	3,769,923