SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

KPMG

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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 67, which comprise the statement of financial position as at December 31, 2018, 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, 2018, 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 (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Additional Matters as Required by the Jamaican Companies Act

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Report on Additional Matters as Required by the Jamaican Companies Act (continued)

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

KPMG

Chartered Accountants
Kingston, Jamaica

February 21, 2019

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2018
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Income			
Premium income, net of reinsurance	5	2,030,927	1,832,787
Investment income	6	2,796,940	3,560,291
Fee and commission income, net	7	566,231	515,516
Realised gains, net	8	635,866	473,331
		6,029,964	6,381,925
Expected credit loss adjustment	26(c)	79,761	-
Policyholders' benefits and expenses			
Policyholders' benefits and reserves	9	1,272,933	557,872
Salaries, pension contributions and other staff benefits	10	552,700	479,840
Property expenses, including depreciation		52,080	61,312
Other operating expenses	11	461,253	540,613
		2,338,966	1,639,637
Profit before taxation		3,770,759	4,742,288
Taxation	12	(799,287)	(1,206,755)
Net profit		2,971,472	3,535,533
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Realised gains on financial assets at fair value through other comprehensive income		(400,341)	(469,381)
Unrealised gains on financial at fair value through other comprehensive income		1,247,397	998,749
Expected credit loss adjustment on other comprehensive income		(76,796)	-
Deferred income tax relating to components of other comprehensive income	13	(192,565)	(132,342)
Other comprehensive income for the year, net of tax		577,695	397,026
Total comprehensive income for the year		3,549,167	3,932,559

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

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2018
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
ASSETS			
Cash resources			
Certificate of deposits with the Bank of Jamaica maturing within 90 days of the original purchase date	14	4,224,012	-
Accounts with parent company	14	1,349,938	1,233,418
		5,573,950	1,233,418
Certificate of deposits with the Bank of Jamaica maturing in excess of 90 days from the original purchase date		-	661,061
		5,573,950	1,894,479
Investment securities			
Financial assets at fair value through other comprehensive income	15	49,790,755	-
Available for sale	15	-	52,338,230
Held to maturity	15	-	1,028,804
Financial assets at fair value through profit or loss	15	1,972,019	-
		51,762,774	53,367,034
Policy loans	16	1,395,605	1,625,365
Other assets			
Property, plant and equipment	17	5,831	8,537
Intangible assets, computer software	2(r),18	81,480	83,481
Taxation recoverable		1,224,062	974,831
Other assets		327,343	1,324
		1,638,716	1,068,173
		60,371,045	57,955,051
LIABILITIES AND SHAREHOLDERS' EQUITY			
Policyholders' liabilities	19	45,065,753	44,780,291
Other liabilities			
Sundry liabilities	20	270,632	227,199
Taxation payable		-	281,643
Deferred tax liabilities	21	688,156	529,079
		958,788	1,037,921
Shareholders' equity			
Share capital	22	150,000	150,000
Cumulative re-measurement result from available for sale financial assets	23	-	995,815
Cumulative re-measurement result from fair value through other comprehensive income financial assets	23	1,418,476	-
Unappropriated profits		12,778,028	10,991,024
		14,346,504	12,136,839
		60,371,045	57,955,051

The financial statements on pages 5 to 67 were approved for issue by the Board of Directors on February 21, 2019 and signed on its behalf by:

Director
Audrey Richards

Director
Noel Foster

The accompanying notes form an integral part of the financial statements

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Changes in Shareholders' Equity
Year ended December 31, 2018
(expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital (Note 22)	Cumulative re-measurement result from other comprehensive income (Note 23)	Unappropriated profits	Total
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	31	-	-	(3,706,937)	(3,706,937)
Balances at December 31, 2017		150,000	995,815	10,991,024	12,136,839
Reclassification impact of adopting IFRS 9	2(s)(ii)	-	(271,836)	271,836	-
Remeasurement impact of initial application of IFRS 9	2(s)(ii)	-	116,802	(119,747)	(2,945)
Adjusted balance as at December 31, 2017		150,000	840,781	11,143,113	12,133,894
Net profit for the year		-	-	2,971,472	2,971,472
Other comprehensive income	13	-	577,695	-	577,695
Dividends	31	-	-	(1,336,557)	(1,336,557)
Balances at December 31, 2018		150,000	1,418,476	12,778,028	14,346,504

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2018
(*expressed in thousands of Jamaican dollars unless otherwise stated*)

	Notes	2018	2017
Cash flows from operating activities			
Net profit for the year		2,971,472	3,535,533
Items not affecting cash:			
Investment income	6	(2,796,940)	(3,560,291)
Interest credited to policyholders and annuitants	9	1,420,046	1,510,899
Transfer from actuarial reserves	9	(344,033)	(1,162,386)
Taxation	12	799,287	1,206,755
Amortisation	18	2,001	2,001
Depreciation	17	2,706	3,162
		2,054,539	1,535,673
Changes in operating assets and liabilities			
Taxation recoverable		(574,778)	(164,858)
Other assets		(469)	(515)
Policyholders' liabilities		(790,551)	(557,025)
Other liabilities		43,433	84,555
		732,174	897,830
Interest received		2,925,666	3,373,869
Income tax paid		(1,113,437)	(970,154)
Net cash provided by operating activities		2,544,403	3,301,545
Cash flows from investing activities			
Purchase of property, plant and equipment	17	-	(765)
Purchase of intangible asset	18	-	(6,686)
Investment securities, net		2,250,325	(405,447)
Policy loans		224,783	6,099
Certificate of deposits with the Bank of Jamaica		657,578	(457,792)
Net cash provided by/(used in) investing activities		3,132,686	(864,591)
Net cash provided before dividend payments			
Dividends paid	31	(1,336,557)	(3,706,937)
Net increase/(decrease) in cash and cash equivalents		4,340,532	(1,269,983)
Cash and cash equivalents at beginning of year		1,233,418	2,503,401
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	5,573,950	1,233,418

1. Identification, activities and licence

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

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

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

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act ("the Act"). This is the first set of the company's annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 2(s).

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.

- 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)

- 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)

- 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 recognises 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 fair value through other comprehensive income.

This is the first set of the company's financial statements in which IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* have been applied. Changes to significant accounting policies are described in note 2 (s).

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(i). 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 19 (a)].

(d) Revenue recognition

(i) Premium income

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

(ii) Investment income

Policy applicable before January 1, 2018

Investment 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. Investment income includes coupons earned on fixed income investments, accretion of discount on discounted instruments, and amortisation of premium on instruments bought at a premium.

Policy applicable after January 1, 2018

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

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

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

2. Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(ii) Investment income (continued)

Policy applicable after January 1, 2018 (continued)

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

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

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

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

(iii) Fee and commission income

Policy applicable before January 1, 2018

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

Policy applicable after January 1, 2018

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

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

2. Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) Fee and commission income (continued)

Policy applicable after January 1, 2018 (continued)

Performance obligations and revenue recognition policies:

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

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms.**	**Revenue recognition under IFRS 15 (applicable from January 1, 2018).**
Policy Administrative fee	The company charges monthly administrative fees on policies to cover fund administrative costs such as printing & stationary expenses.	Revenue from administrative service is recognised over time as the service is provided.
Surrender Charges and other contract fees	These are charged to policy holders upon surrender of the insurance contract.	Revenue from surrender charges and other contract fees is recognised over time as the need arises.
Management and Administrative fee	These are fees charged to the approve retirement scheme.	Revenue from management and administrative service are recognised over time as the service is provided.

(iv) Realised gains and losses

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

(e) Reinsurance contracts held

The company enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts [see note 2(b)]. Reinsurance does not relieve the originating insurer of its liability.

(f) Claims

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

2. Summary of significant accounting policies (continued)

(g) Taxation

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

(i) Current taxation

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

(ii) Deferred tax

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

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

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

(h) Financial instruments

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

The fair values of the company's financial instruments are discussed in Note 26 and 28.

(i) Recognition and initial measurement

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.

A financial asset (unless it is a trade receivables without a significant financing component is initially measured at the transaction price) or liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements
December 31, 2018
(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

(ii) Classification and subsequent measurement

Financial assets – Policy applicable after 1 January 2018

On initial recognition, a financial asset is classified as and measured at: amortised cost; fair value through other comprehensive income (FVOCI) investment securities; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets, in which case all affected financials assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amotised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an account mismatch that would otherwise arise.

The company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Policy applicable after 1 January 2018 (continued)

The company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes (continued):

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, and the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as a part of an overall assessment of the company's stated objectives for managing the financial assets is achieved and how cash flows are realised.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

The company's objective is to hold financial assets to collect contractual cash flows.

In assessing whether the contractual cash flows are solely payments of principal and interest, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the company considers:

- contingent events that would change the amount or timing of cash flows;

- terms that may adjust the contractual coupon rate, including variable-rate features;

- prepayment and extension features; and

- terms that limit the company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion, if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract
Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets – Policy applicable after 1 January 2018 (continued)

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the company changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Policy applicable before 1 January 2018

(iii) 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 reward of ownership of the financial assets 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 or 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.

(iv) Financial assets at fair value through profit and loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are measured at fair value and all related gains and losses are included in profit or loss.

2. Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Policy applicable before 1 January 2018 (continued)

(v) 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.

(vi) 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 unrealised 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 unrealised 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 recognised at fair value plus transaction costs.

(i) Impairment of financial assets

Policy applicable after 1 January 2018

(i) Non-derivative financial assets

Financial instruments and contract assets

The company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- investment securities measured at FVOCI; and
- contract assets.

2. Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Policy applicable after 1 January 2018 (continued)

(i) Non-derivative financial assets (continued)

Financial instruments and contract assets (continued)

The company measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured at 12-month ECL:

- investment securities that are determined to have low credit risk at the reporting date; and
- other investment securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for policy loans and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company for actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The company considers an investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

2. Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Policy applicable after 1 January 2018 (continued)

(i) Non-derivative financial assets (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and investment securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the company on terms that the company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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2. Summary of significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Policy applicable after 1 January 2018 (continued)

(i) Non-derivative financial assets (continued)

Credit-impaired financial assets (continued)

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 whether the carrying amount of an asset exceeds its estimated recoverable amount.

(ii) 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 financial asset carried at amortised cost 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.

(iii) Financial assets carried at fair value

When a decline in the fair value of a financial asset carried at fair value 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 derecognised. 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.

(iv) 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.

(j) Impairment of non-financial assets

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

2. Summary of significant accounting policies (continued)

(j) Impairment of non-financial assets (continued)

(i) Calculation of recoverable amount:

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

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

(ii) Reversals of impairment:

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

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

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

(k) Property, plant and equipment

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

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.

2. Summary of significant accounting policies (continued)

(k) Property, plant and equipment

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

(l) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

(m) Related parties

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

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

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

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

- (i) The entity and the company are members of the same 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).

2. Summary of significant accounting policies (continued)

(m) Related parties

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

(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.

(n) Pension scheme

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

(o) Cash and cash equivalents

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

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

(p) Dividends

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

(q) Fiduciary activities

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

(r) Intangible assets

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

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

2. Summary of significant accounting policies (continued)

(s) Changes in significant accounting policies

The company has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018.

A number of other new standards were also effective from January 1, 2018 but they do not have a material effect on the company's financial statements.

Due to the transition method chosen by the company in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of income from the sale of policies to customers and the related assets and liabilities recognised by the company. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- additional disclosures related to IFRS 9 [see notes 2(h) and 26(c)]; and
- additional disclosures related to IFRS 15 [see note 2(d)].

Except for the changes below, the company has consistently applied the accounting policies as set out in note 2 to all periods presented in these financial statements.

The effect of initially applying these standards is mainly attributed to:

IFRS 9, Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which financial assets is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirement in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities.

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of significant accounting policies (continued)

(s) Changes in significant accounting policies (continued)

For an explanation of how the company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 2(h).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's assets.

The effect of adopting IFRS 9 on the carrying of financial assets at 1 January 2018 relates soley to the new impairment requirements.

	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	IFRS 9 carrying amount at January 1, 2018
Financial assets					
Cash resources		Loans and receivables	Amortised cost	1,894,479	1,893,399
Investment securities	(a)	Available-for-sale	FVOCI - debt instrument	52,338,230	50,601,721
Investment securities		Available-for-sale	FVTPL - debt instrument	-	1,736,509
Investment securities	(b)	Held-to-maturity	Amortised cost	1,028,084	1,025,237
Policy loans	(c)	Loans and receivables	Amortised cost	1,625,365	1,625,365
				56,886,158	56,882,231

(a) The investment securities categorised as available-for-sale under IAS 39 are held by the company's treasury unit in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The company considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The investment securities mature in one to five years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9.

(b) Investment securities that were previously classified as held-to-maturity are now classified at amortised cost. The company intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist soley of payments of principal and interest on the principal amount outstanding.

(c) Policy loans that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

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2. Summary of significant accounting policies (continued)

(s) Changes in significant accounting policies (continued)

Classification and measurement of financial assets and financial liabilities (continued)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at January 1, 2018
Financial assets						
Cash resources	Loans and receivables	Amortised cost	1,894,479	-	(1,080)	1,893,399
Investment securities	Held-to-maturity	Amortised cost	1,028,084	-	(2,847)	1,025,237
Investment securities	Available-for- sale	FVOCI	52,068,265	(1,466,544)	-	50,601,721
Investment securities	Available-for- sale	FVTPL	-	1,466,544	-	1,466,544
Investment securities	Available-for- sale	FVTPL	269,965	(269,965)	-	-
Investment securities	Available-for- sale	FVTPL	-	269,965	-	269,965
Policy loans	Loans and receivables	Amortised cost	1,625,365	-	-	1,625,365
			56,886,158	-	(3,927)	56,882,231

(i) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and investment securities at FVOCI, but not to investments in equity instruments. "Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see note 2 (i).

(ii) Transition

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

Impairment recognised at 1 January 2018 on:	
Investment securities at amortised cost/ FVOCI	2,135
Cash resources	810
Loss allowance at 1 January 2018 under IFRS 9	2,945

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Difference in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly the information presented for 2017 does not generally reflect requirements of IFRS 9, but rather those of IAS 39.

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2. Summary of significant accounting policies (continued)

(s) Changes in significant accounting policies (continued)

Classification and measurement of financial assets and financial liabilities (continued)

(ii) Transition (continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

If an investment in an investment security had low credit risk at the date of initial application of IFRS 9, then the company has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The impact, net of tax, of transition to IFRS 9 on the opening accumulated profit is as follows:

Accumulated profit

Closing balance under IAS 39 (December 31, 2017)	10,991,024
Reclassification – impact of adopting IFRS 9	271,836
Recognition of expected credit losses adjustment under IFRS Investments and cash resources	(119,747)
Opening balance under IFRS 9 (January 1, 2018)	11,143,113

3. Critical accounting estimates and judgments in applying accounting policies

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

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

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

(ii) Judgements

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

3. Critical accounting estimates and judgments in applying accounting policies

(ii) Judgements (continued):

- Applicable to 2018 only

  (i) Classification of financial assets

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

  (ii) Impairment of financial assets

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

(iii) Key assumptions concerning the future and other sources of estimation uncertainty:

- Applicable to 2018 only

  (i) Allowance for impairment losses

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

  (ii) Fair value of financial instruments

  There are no quoted market prices for a significant portion of the Company's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as Level 2 in the fair value hierarchy. The estimates of fair value arrived at from these sources may be different from the actual price of the instrument in an actual arm's length transaction [see note 28]

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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

	2018	2017
Gross written premium		
Individual life	590,871	528,246
Group life	1,410,431	1,285,990
Universal life	29,983	19,412
	2,031,285	1,833,648
Reinsurance	(358)	(861)
	2,030,927	1,832,787

6. Investment income,net

	2018	2017
Investment securities	2,632,866	3,297,942
Certificate of deposits with the Bank of Jamaica	61,368	104,940
Interest on policy loans	107,943	117,083
Government securities purchased under resale agreement	(12,901)	34,943
Other bank balances	7,664	5,383
	2,796,940	3,560,291

7. Fee and commission income, net

	2018	2017
Management and administration fees	191,544	159,033
Investment commissions paid	(2,857)	(3,362)
Surrender charges and other contract fees	48,148	46,656
Policy administrative fees	329,396	313,189
	566,231	515,516

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8. Realised gains, net

	2018	2017
Foreign exchange	14	3,950
Gain on disposal of financial assets FVOCI	400,341	469,381
Gain on disposal of financial assets FVTPL	235,511	-
	635,866	473,331

9. Policyholders' benefits and reserves

	2018	2017
Policyholders' benefit payments	196,920	209,359
Interest credited – policyholders	1,400,805	1,493,158
Interest credited – annuitants	19,241	17,741
Transfer from actuarial reserves	(344,033)	(1,162,386)
	1,272,933	557,872

10. Salaries, pension contributions and other staff benefits

	2018	2017
Wages and salaries	449,922	378,071
Statutory contributions	37,635	36,808
Pension cost (note 24)	-	298
Other staff benefits	65,143	64,663
	552,700	479,840

11. Nature of expenses

	2018	2017
Auditors' remuneration	15,022	7,741
Depreciation (note 17 and 18)	4,707	5,163
Directors' emoluments:		
Fees and expenses	2,760	4,422
Management remuneration	14,406	26,243
Management fees	272,895	238,086
Interest on annuities (note 9)	19,241	17,741
Other expenses	132,222	241,217
	461,253	540,613

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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:

	2018	2017
Current income tax:		
Income tax at 25%	831,793	1,161,194
Deferred income tax (note 21)	(32,506)	45,561
	799,287	1,206,755

(b) Reconciliation of effective tax rate:

	2018	2017
Profit before taxation	3,770,759	4,742,288
Tax calculated at 25%	942,690	1,185,572
Adjustment for the effect of:		
Asset tax paid	34,579	34,049
Expenses disallowed/income exempt for tax purposes	(92,265)	4,826
Other charges and allowances	(85,717)	(17,692)
	799,287	1,206,755

13. Deferred income tax effects relating to other comprehensive income

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

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

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14. Cash and cash equivalents

	2018	2017
Cash resources	5,573,950	1,894,479
Less amounts not considered cash and cash equivalents:		
Due from banks greater than ninety days	-	(657,578)
Accrued interest	-	(3,483)
	5,573,950	1,233,418
Cash and cash equivalent is comprised of:		
Cash and balances with Bank of Jamaica	4,224,012	-
Accounts with parent company	1,349,938	1,233,418
	5,573,950	1,233,418

15. Investment securities

	2018	2017
Financial assets at fair value through other comprehensive income:		
Debt securities	49,146,692	-
Interest receivable	644,063	-
	49,790,755	-
Available for sale:		
Premium Growth Fund	-	149,956
Money Market Fund	-	57,110
Fixed Income Fund	-	62,899
Debt securities	-	51,275,782
Interest receivable	-	792,483
	-	52,338,230
Held to maturity:		
Debt securities	-	1,017,000
Interest receivable	-	11,804
	-	1,028,804
Financial assets at fair value through profit or loss:		
Debt securities	1,938,192	-
Interest receivable	33,827	-
	1,972,019	-
	51,762,774	53,367,034

(expressed in thousands of Jamaican dollars unless otherwise stated)

15. Investment securities (continued)

	Available for sale	Financial asset at fair value through other comprehensive income	Held to maturity	Financial asset at fair value through profit or loss	Total
December 31, 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
Transfer to FVOCI	(52,338,230)	52,338,230	-	-	-
Purchases	-	9,317,824	-	-	9,317,824
Maturities	-	(3,717,333)	(1,017,000)	-	(4,734,333)
Disposals	-	(7,461,000)	-	-	(7,461,000)
Transfer to FVTPL	-	(1,702,682)		1,938,192	235,510
Amortisation adjustment	-	317,080	-	-	317,080
Accrued interest adjustment	-	(148,420)	(11,804)	33,827	(126,397)
Fair value net gains	-	847,056	-	-	847,056
December 31, 2018	-	49,790,755	-	1,972,019	51,762,774

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15. Investment securities (continued)

Included in investment securities are Government of Jamaica local registered stocks valued at $90,000 (2017: $90,000) which have been deposited with the Regulator, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations, 2001.

Fair value through other comprehensive income investments include holdings in Scotia Investments Jamaica Limited funds as follows:

	2018		2017	
	Units	Unit price	Units	Unit price
Premium Growth Fund	478,925	348.3624	478,925	313.11
Money Market Fund	500,000	117.4085	500,000	114.22
Fixed Income Fund	485,667	142.3926	485,667	129.51

16. Policy loans

	2018	2017
Principal	1,343,378	1,568,161
Accrued interest	52,227	57,204
	1,395,605	1,625,365

17. Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture fixtures and equipment	Total
Cost:				
December 31 2016	7,861	36,373	36,051	80,285
Additions	-	765	-	765
December 31, 2017 and 2018	7,861	37,138	36,051	81,050
Accumulated depreciation:				
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
Charge for the year	-	1,222	1,484	2,706
December 31, 2018	7,861	36,787	30,571	75,219
Net book values:				
December 31, 2018	-	351	5,480	5,831
December 31, 2017	-	1,573	6,964	8,537
December 31, 2016	-	2,382	8,552	10,934

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18. Intangible assets

	Software	Software work in progress	Total
Cost:			
December 31, 2016	8,003	73,128	81,131
Additions	-	6,686	6,686
December 31, 2017 and 2018	8,003	79,814	87,817
Accumulated depreciation:			
December 31, 2016	2,335	-	2,335
Charge for the year	2,001	-	2,001
December 31, 2017	4,336	-	4,336
Charge for the year	2,001	-	2,001
December 31, 2018	6,337	-	6,337
Net book values:			
December 31, 2018	1,666	79,814	81,480
December 31, 2017	3,667	79,814	83,481
December 31, 2016	5,668	73,128	78,796

19. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

		2018	2017
Policyholders' fund		51,657,873	51,050,699
Benefits and claims payable		183,373	199,950
Unprocessed premiums		18,444	12,271
Annuities		536,874	504,145
Insurance risk reserve	- Individual life	(8,406,807)	(7,870,046)
	- Individual A&S	385,910	305,760
	- Group life	611,910	518,898
	- Whole life	125,819	86,203
	- Universal life	(47,643)	(27,589)
		45,065,753	44,780,291

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19. Policyholders' liabilities (continued)

(b) Change in policyholders' liabilities:

	2018	2017
Policyholders' fund:		
At beginning of the year	51,050,699	50,266,672
Gross premiums	5,054,400	5,183,003
Benefits and claims	(5,848,031)	(5,892,134)
Interest credited	1,400,805	1,493,158
At end of the year	51,657,873	51,050,699
Benefits and claims payable:		
At beginning of the year	199,950	155,129
Policyholders' claims and benefits	180,343	254,180
Benefits and claims paid	(196,920)	(209,359)
At end of the year	183,373	199,950
Unprocessed premiums:		
At beginning of the year	12,271	4,667
Premiums received	7,522,831	7,471,149
Premiums applied	(7,516,658)	(7,463,545)
At end of the year	18,444	12,271

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

	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)

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19. Policyholders liabilities (continued)

(c) Investments and other assets supporting policy liabilities:

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

	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

(d) Policy assumptions

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

(a) Best estimate assumptions

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

(i) Mortality and morbidity

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

(ii) Investment yields

The company matches assets and liabilities by line of business.

For ScotiaMint and Credit Insurance the Actuary has assumed a portfolio rate of 3.75% in January 2019 increasing to 5.00% over 20 years.

For Criticare and WholeLife the Actuary has assumed a portfolio rate of 6.25% in January 2019 decreasing to 5.00% by 2039.

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19. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(a) Best estimate assumptions (continued)

(ii) Investment yields (continued)

Assumed interest rates are net of asset tax and have been decreased by 0.25% 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 4.00% in January 2019 decreasing to 2% over 20 years. A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

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

(vi) Taxation

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

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19. Policyholders liabilities (continued)

(d) Policy assumptions (continued)

(b) Provision for adverse deviation assumptions

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

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

20. Sundry liabilities

	2018	2017
Accrued charges	219,137	184,299
Accrued vacation	24,994	21,450
Statutory deductions	24,429	19,788
Other	2,072	1,662
	270,632	227,199

21. 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%.

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

	2018	2017
Balance at beginning of year	529,079	351,176
Impact of initial application of IFRS 9	38,934	-
Recognised in profit for the year [note 12(a)]	(32,506)	45,561
Expected credit loss adjustment	(39,916)	-
Recognised in other comprehensive income:		
Available for sale investments		
- fair value re-measurement (note 13)	-	132,342
FVOCI investments		
- fair value re-measurement (note 13)	192,565	-
Balance at end of year	688,156	529,079

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21. Deferred tax assets and liabilities (continued)

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

	2018	2017
Deferred income tax asset:		
Accrued vacation	6,248	5,363
Accelerated tax depreciation	123	-
Impact of initial application of IFRS 9	39,916	-
	46,287	5,363
Deferred income tax liabilities:		
Expected credit loss adjustment	(19,735)	-
Accelerated tax depreciation	-	(534)
FVTPL investments	(90,612)	-
FVOCI investments	(453,091)	-
Available for sale investments	-	(331,966)
Interest receivable	(171,005)	(201,942)
	(734,443)	(534,442)
Net deferred tax liability	(688,156)	(529,079)

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

	2018	2017
Accrued vacation	(885)	(476)
Interest receivable	(30,937)	46,301
Accelerated tax depreciation	(684)	(264)
	(32,506)	45,561

22. Share capital

	2018	2017
Authorised, issued and fully paid:		
150,000,000 ordinary shares of no par value	150,000	150,000

23. Cumulative re-measurement result from other comprehensive income

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

	2018	2017
Balance at beginning of year	995,815	598,789
Reclassification impact of adopting IFRS 9	(362,448)	-
Less: deferred income taxes	90,612	-
	(271,836)	-
Impact of initial application of IFRS 9	155,736	-
Less: deferred income taxes	(38,934)	-
	116,802	-
	840,781	-
Net gains from changes in fair value	1,247,397	998,749
Less: deferred income taxes	(311,849)	(249,687)
	935,548	749,062
Balance brought forward	1,776,329	1,347,851

(expressed in thousands of Jamaican dollars unless otherwise stated)

23. Cumulative re-measurement result from other comprehensive income (continued)

	2018	2017
Balance carried forward	1,776,329	1,347,851
Net gains on disposal transferred to income	(400,341)	(469,381)
Less: deferred income taxes	100,085	117,345
	(300,256)	(352,036)
Expected credit loss adjustment	(76,796)	-
Less: deferred income taxes	19,199	-
	(57,597)	-
Balance at end of year	1,418,476	995,815

24. 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 Nil $ (2017: $298).

25. 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.

25. Insurance and financial risk management (continued)

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.

(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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

25. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

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.

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			
	2018		2017	
	Before Reinsurance	%	Before Reinsurance	%
Individual life benefits assured per life:				
0 to 250,000	4,931,998	9	5,266,635	10
250,001 to 500,000	3,431,095	6	2,787,029	5
500,001 to 750,000	3,175,588	6	3,066,149	6
750,001 to 1,000,000	3,584,935	6	3,340,186	6
1,000,001 to 1,500,000	10,800,482	19	9,774,853	19
1,500,001 to 2,000,000	6,877,672	12	6,068,254	12
Over 2,000,000	23,894,213	42	22,117,031	42
	56,695,983	100	52,420,137	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			
	2018		2017	
	Before Reinsurance	%	Before Reinsurance	%
Group life benefits assured per life:				
0 to 250,000	10,601,839	12	11,246,244	13
250,001 to 500,000	4,200,816	5	4,574,235	5
500,001 to 750,000	5,479,432	6	5,130,951	6
750,001 to 1,000,000	4,843,861	6	4,354,444	5
1,000,001 to 1,500,000	16,017,565	18	15,430,489	18
1,500,001 to 2,000,000	13,479,776	15	13,344,207	16
Over 2,000,000	33,446,908	38	30,499,093	37
	88,070,197	100	84,579,663	100

25. Insurance and financial risk management (continued)

(a) Insurance risk (continued)

(i) Frequency and severity of claims (continued)

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums or to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The company has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(ii) Sources of uncertainty in the estimation of future benefit payments and premiums

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

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

(iii) Process used in deriving assumptions

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

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

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

See note 19(d) for detailed policy assumptions.

(b) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the company cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the company's liability as primary issuer. The company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

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

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25. Insurance and financial risk management (continued)

(b) Reinsurance risk (continued)

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 26(a).

(ii) Currency risk

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

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

25. Insurance and financial risk management (continued)

(c) Market risk (continued)

(iii) Other price risk

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

The company is not exposed to other price risk.

(d) Liquidity risk

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

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

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

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

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

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

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

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

25. Insurance and financial risk management (continued)

(e) Credit risk

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

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

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

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

(f) Capital risk management

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

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

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

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

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

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

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

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25. Insurance and financial risk management (continued)

(f) Capital risk management (continued)

Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 150% in 2010 and later. The MCCSR for the company as of December 31, 2018 and 2017 is set out below:

	2018	2017
Regulatory capital held	10,077,847	8,153,701
Minimum regulatory capital	1,441,449	1,386,439
MCCSR Ratio	699.15%	588.10%

26. Financial instruments

(a) Cash flow and fair value interest rate risk

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

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

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

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26. 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
Policy loans	1,623,691	-	-	-	-	1,674	1,625,365
Total assets	2,857,109	32,066,618	991,459	13,560,650	6,331,633	1,079,409	56,886,878
Policyholders' liabilities	37,210,822	3,889,362	9,950,515	-	-	(6,270,408)	44,780,291
Total interest rate sensitivity gap	(34,353,713)	28,177,256	(8,959,056)	13,560,650	6,331,633	7,349,817	12,106,587
Cumulative gap	(34,353,713)	(6,176,457)	(15,135,513)	(1,574,863)	4,756,770	12,106,587	-

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

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

	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
Policy loans	7.50	-	-	-	-	7.50
Policyholders' liabilities	2.71	3.66	2.97	-	-	2.68

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26. Financial instruments (continued)

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

(i) Sensitivity

Sensitivity to interest rate risk is considered by the company. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 27.

(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.

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

	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

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26. Financial instruments (continued)

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

Valuation techniques and significant unobservable inputs:

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

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

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26. Financial instruments (continued)

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

Valuation techniques and significant unobservable inputs (continued):

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

(b) Liquidity risk

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

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

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

(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, 2018, and 2017 based on Standard and Poor's ratings or their equivalent:

	2018	2017
BB to BB-	55,349,326	53,082,283
Unrated	637,460	675,847
	55,986,786	53,758,130
Classified as follows:		
Certificate of deposits with the Bank of Jamaica	4,224,012	661,061
Financial assets at fair value through profit or loss	1,972,019	-
Financial assets at fair value through other comprehensive income	49,790,755	52,068,265
Held to maturity	-	1,028,804
	55,986,786	53,758,130

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26. Financial instruments (continued)

(c) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

Credit review process

Investment securities

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

Credit quality

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

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

The credit quality of investment securities is as follows:

	2018 12-month ECL Stage 1	**2017**	
	Debt securities	Available for-sale	Held-to-maturity
Credit Rating: BB+	49,707,067	52,338,230	1,028,804
Financial adjustment on ECL	83,688	-	-
Carrying amount	49,790,755	52,338,230	1,028,804

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26. Financial instruments (continued)

(c) Credit risk (continued)

Credit review process (continued)

Cash resources

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

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

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

Inputs, assumptions and techniques used for estimating impairment

See accounting policy at note 2(i).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and third party policies including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 90 days past due.

Credit risk grades:

The company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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26. Financial instruments (continued)

(c) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Credit risk grades (continued) :

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management and senior management changes.
- Data from credit reference agencies, press articles and changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- External data from credit reference agencies, including industry-standard credit scores.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has been increased significantly:

The company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the credit rating of a security moves to lower rated categories.

As a backstop, the company considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the company determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently.

26. Financial instruments (continued)

(c) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Determining whether credit risk has been increased significantly (continued):

The company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default:

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the company; and
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the company for regulatory capital purposes.

Incorporation of forward-looking information

The company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

26. Financial instruments (continued)

(c) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Incorporation of forward-looking information (continued)

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Jamaica, supranational organisations and selected private-sector and academic forecasters.

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

The company has an IG code assigned that reflect the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposure among IG codes.

The economic scenarios used as at December 31, 2018 assumed no significant changes in key indicators for Jamaica for the years ending December 31, 2019 to 2023.

For 2018, forward-looking information was incorporated in the ECL computation by use of a management overlay. Based on the economic scenario, a proxy of 1.1 times ECL was determined to be appropriate.

Measurement of ECL

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

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

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

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

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26. Financial instruments (continued)

(c) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

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

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

	2018	2017
Balance at 1 January under IFRS 9	-	-
Adjustment on initial application of IFRS 9	3,927	-
Recognised in profit or loss	79,761	-
Balance as at 31 December	83,688	-

Debt securities

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

	2018	2017
Government of Jamaica and Bank of Jamaica	51,052,036	52,430,402
Other financial institutions	627,050	936,632
	51,679,086	53,367,034
Add: financial adjustment on ECL	83,688	-
	51,762,774	53,367,034

Collateral and other credit enhancements held against financial assets

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

26. Financial instruments (continued)

(c) Credit risk (continued)

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

Estimates of fair value are based on the value of collateral assessed at the time of granting credit or acquiring other financial assets, and generally are not updated except when a loan (or other financial asset) is individually assessed as impaired.Collateral generally is not held over balances with banks or brokers/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held as at December 31, 2018 and December 31, 2017.

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

27. Sensitivity analysis of actuarial liabilities and capital adequacy

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

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

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

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

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

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

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

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

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

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

	Change in assumptions	2018	2017
Interest rates	–1%	(14,950)	17,572
	+1%	58,590	24,667
Mortality	+10%	422,736	454,091
	–10%	(440,154)	(470,071)
Morbility	+10%	105,921	-
	-10%	(107,191)	-
Expenses	+10%	439,250	492,910
	–10%	(435,132)	(487,631)
Lapses and withdrawals	+10%	372,282	320,620
	–10%	(402,981)	(347,112)
Premium persistency	+10%	13,009	-
	-10%	(13,062)	-

(b) Dynamic Capital Adequacy Testing (DCAT)

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

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

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

The purpose of the DCAT is:

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

A full DCAT report was completed for March 2018, based on the financial position of the company at December 31, 2017. 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 2018. 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.

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

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

A full DCAT report was completed for March 2018, based on the financial position of the company at December 31, 2017. The results were as follows (continued):

(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 2018, for five years. Overall, this scenario produces a higher MCCSR ratio over the 5-year period.

(v) Low interest rate

An assumed decrease in the portfolio rate of 5% over a 5 year period was tested in this scenario. It is assumed that inflation ultimately decreases to 0.5%. Overall, this scenario produces a lower MCCSR over the five year period.

(vi) High interest rate

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

(vii) High sales growth

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

(viii) Low sales

This scenario assumed sales were 20% less every year starting in 2018. Fees are also higher than under the base scenario. Overall this scenario produces a reduced surplus but the MCCSR improves.

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

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

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

	2018		2017	
	Surplus	MCCSR	Surplus	MCCSR
Base	17,047,149	991%	14,964,882	661%
Variable				
Mortality risks	16,707,102	1,006%	14,532,000	663%
Low lapse rates	18,587,009	901%	16,269,256	592%
Higher lapse rates	13,662,601	1,528%	12,696,181	1,016%
Expense risks	16,320,528	1,005%	14,337,672	665%
Low interest rate	15,974,184	898%	14,273,513	590%
High Interest rate	15,464,197	823%	13,589,784	582%
High sales growth	17,615,868	949%	15,510,328	629%
Low sales	15,985,851	1040%	13,876,166	691%

28. Fair value of financial instruments

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

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

The following methods and assumptions have been used:

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

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28. Fair value of financial instruments (continued)

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.

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Investment securities:				
Held to maturity	-	-	1,028,804	1,028,995

29. Related party transactions and balances

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

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

	Ultimate parent	Parent company	Fellow subsidiaries	Directors and key management personnel	Total 2018	Total 2017
Insurance products	-	-	-	10,731	10,731	9,785
Mortgage back repurchase agreement	-	-	333,333	-	333,333	671,223
Securities purchased under resale agreements	-	-	-	-	-	-
Interest earned on resale agreements	-	-	(1,388)	-	(1,388)	(35,981)
Interest paid on resale agreements	-	14,289	-	-	14,289	1,038
Interest earned on mortgage backed repurchase agreement	-	-	(37,516)	-	(37,516)	(62,702)
Due from banks and other financial institutions	-	1,349,938	294,699	-	1,644,637	1,503,383
Interest earned from banks and other financial institutions	-	(7,664)	-	-	(7,664)	(5,383)
Management fees received	-	-	(191,618)	-	(191,618)	(159,066)
Management fees paid	102,153	54,234	-	-	156,387	123,605
Other operating expenses	4,600	10,795	24,017	-	39,412	37,925
Loss on disposal of investment	-	-	-	-	-	5,578
Commission on securities	-	2,857	-	-	2,857	3,362
Profit from sale of investments	-	-	(400,341)	-	(400,341)	(477,123)

(expressed in thousands of Jamaican dollars unless otherwise stated)

29. Related party transactions and balances (continued)

	2018	2017
Key management compensation		
Salaries and other short term benefits	90,244	66,332
Post-employment benefits and allowances	7,381	4,950

30. 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 $10,353,394 (2017: $8,446,156).

31. Dividends

	2018	2017
First interim dividend	442,128	380,300
Second interim dividend	269,849	456,261
Third interim dividend	282,115	417,884
Fourth interim dividend	342,465	451,492
Special dividend	-	2,001,000
	1,336,557	3,706,937

32. Subsequent event

On November 27, 2018, Scotiabank announced that it will enter into a 20-year distribution agreement with Sagicor Financial Corporation Limited (Sagicor) through which an enhanced suite of market-leading insurance products and solutions, underwritten by Sagicor, will be offered to Scotiabank customers in Jamaica. As part of this partnership, Scotiabank has entered into an agreement to sell its insurance subsidiary – Scotia Jamaica Life Insurance Company Limited. This agreement is subject to regulatory approval and customary closing conditions. The transaction is also subject to the closing of the announced agreement whereby Sagicor will be acquired by Alignvest II Corporation subject to conditions in and pursuant to a plan of arrangement, and the surviving entity will continue the Sagicor brand and be publicly-listed on the Toronto Stock Exchange.