GUARDIAN LIFE LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2018

(Expressed in Jamaican dollars unless otherwise indicated)

Guardian Life Limited
Index
31 December 2018

GUARDIAN LIFE LIMITED
2018 REPORT OF THE APPOINTED ACTUARY
TO THE SHAREHOLDERS AND POLICYHOLDERS

I have examined the financial condition and valued the insurance policy benefit liabilities of Guardian Life Limited for its balance sheet as at 31st December 2018 and the corresponding change in the policy liabilities in the statement of operations for the year then ended. I meet the appropriate qualification standards and I am familiar with the valuation, solvency and financial condition requirements applicable to life insurance companies in Jamaica.

In my opinion:

(1) the method and procedures used in the verification of the valuation data are sufficient and reliable and fulfill acceptable standards of care;

(2) the valuation of actuarial and other insurance policy liabilities has been made in accordance with accepted actuarial practice with such changes as determined and directions made by the Financial Services Commission;

(3) the valuation of actuarial and other insurance policy liabilities has been made in accordance with the Caribbean Actuarial Association's Actuarial Standard of Practice APS2, the Prudential Supervision of Long-Term Insurance Business;

(4) the methods and assumptions used to calculate the actuarial and other insurance policy benefit liabilities are appropriate to the circumstances of the Company and of the said policies and claims;

(5) the amount of the insurance policy liabilities represented in the balance sheet of Guardian Life Limited makes proper provision for the future payments under the Company's policies and meet the requirements of the Insurance Act and other appropriate regulations of Jamaica;

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

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

The valuation of Guardian was conducted by myself with the technical support of the actuarial staff of Guardian, using the Policy Premium Method ("PPM"), assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Standards of Practice (Life) of the Canadian Institute of Actuaries and the Jamaican Regulations.

By: Sylvain Goulet

Name: Sylvain Goulet, FCIA, FSA, MAAA
Affiliate Member of the Institute and Faculty of Actuaries
Member of the Caribbean Actuarial Association
Appointed Actuary for Guardian Life Limited

20th February 2019

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Chartered Accountants

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Guardian Life Limited

Report on the Audit of the Consolidated and Company Financial Statements

Opinion
We have audited the consolidated financial statements of Guardian Life Limited and its subsidiaries (the "Group") and the company financial statements of Guardian Life Limited ("the Company"), which comprise the consolidated and company statements of financial position as at 31 December 2018, and the consolidated and company statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and company financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2018, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of 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 Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements section of our report. We are independent of the Group 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Company Financial Statements
Management is responsible for the preparation of the consolidated and company financial statements that give a true and fair view in accordance with IFRSs and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, management is responsible for assessing the Group's and 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 Group and Company or to cease operations, or has no realistic alternative but to do so.

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

Report on the Audit of the Consolidated and Company Financial Statements (Continued)

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and or Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
To the Shareholders of Guardian Life Limited (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements (Continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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. 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 so required.

Ernst & Young

Ernst & Young
Chartered Accountants
Kingston, Jamaica

4 March 2019

Guardian Life Limited

Consolidated Statement of Financial Position

As at 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Assets			
Property and equipment	5	2,552,138	2,503,749
Investment properties	6	1,900,373	1,765,884
Property for development and sale	7	490,861	231,950
Intangible assets	8	75,851	69,774
Taxation recoverable		996,153	941,384
Financial assets	10	51,363,665	50,189,408
Loans and receivables	11	2,386,767	2,755,194
Cash and cash equivalents	12	4,351,876	2,864,916
Cash and cash equivalents of mutual fund unit holders	12	8,251	-
		64,125,935	61,322,259
Segregated funds' assets	13(a)	14,058,576	11,881,281
Total assets		78,184,511	73,203,540
Equity and liabilities			
Share capital	14	126,525	126,525
Stock option reserve	15	40,760	54,243
Reserves	16	4,764,886	3,615,794
Retained earnings	41	14,706,214	12,251,869
Equity attributable to owners of the parent		19,638,385	16,048,431
Liabilities			
Policyholders' Funds			
Insurance contracts	17(a)	19,998,610	22,010,604
Investment contracts	18	18,865,830	18,862,805
Other policy liabilities	19	1,917,988	1,574,349
		40,782,428	42,447,758
Deferred tax liabilities	20	1,260,515	815,295
Provision for taxation		243,688	275,035
Other liabilities	21	2,200,919	1,735,740
		44,487,550	45,273,828
Segregated funds' liabilities	13	14,058,576	11,881,281
Total liabilities		58,546,126	57,155,109
Total equity and liabilities		78,184,511	73,203,540

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

Approved for issue by the Board of Directors on 20 February 2019 and signed on its behalf by:

M E Rochester

Maxim Rochester	**Director**	**Eric Hosin**	**Director**

Guardian Life Limited

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

Continuing operations:	**Notes**	**2018 $'000**	**2017 $'000**
Insurance activities			
Insurance premium income	22(a)	13,142,380	11,846,755
Insurance premium ceded to reinsurers	22(b)	(530,101)	(422,172)
Net premium income		12,612,279	11,424,583
Reinsurance commission income		79,507	66,475
Net underwriting revenue		12,691,786	11,491,058
Policy acquisition expenses	23	(2,037,498)	(1,777,693)
Net insurance benefits and claims	24	(7,563,565)	(6,951,899)
Decrease/(increase) in reserves for future policy benefits	17	2,012,170	(300,323)
Underwriting expenses		(7,588,893)	(9,029,915)
Net result from insurance activities		5,102,893	2,461,143
Investing activities			
Net investment income	25	3,768,294	3,892,728
Net fair value gains on financial assets at fair value through profit or loss and investment properties	26 (a)	2,561,499	2,296,142
Net realized fair value losses on de-recognition of financial assets measured at fair value through other comprehensive income	27 (a)	(40,524)	-
Net realized fair value gains on other financial assets	27 (b)	35,105	20,920
Net impairment gains on financial assets	30	9,683	-
Fee income	28	624,262	605,079
Foreign exchange gains/(losses)		39,221	(243,276)
Other income	29	37,730	48,883
Investment contract benefits	18	(835,724)	(860,717)
Net income from investing activities		6,199,546	5,759,759
Net income from all activities		11,302,439	8,220,902
Operating expenses	31	(3,232,746)	(2,968,562)
Operating profit from continuing operations		8,069,693	5,252,340
Taxation	32	(1,192,485)	(872,663)
Profit attributable to equity holders of the parent		6,877,208	4,379,677

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

Guardian Life Limited

Consolidated Statement of Other Comprehensive Income

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Profit attributable to equity holders of the parent		6,877,208	4,379,677
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	16	(4,385)	(2,011)
Net fair value losses on debt securities at fair value through other comprehensive income	10	(236,466)	-
Net change in allowance for expected credit losses on debt securities at fair value through other comprehensive income	30	114,836	-
Net losses on disposal of investment securities measured at fair value through other comprehensive income		(250,411)	-
Deferred tax on fair value through other comprehensive income securities	32(c)	60,001	-
Net other comprehensive loss that may be reclassified subsequently to profit or loss		(316,425)	(2,011)
Items that will not be reclassified subsequently to profit or loss:			
Gains on property revaluation	5, 32(c)	37,289	34,352
Deferred tax charge on revaluation gains	32(c)	(9,322)	(8,588)
Net other comprehensive income that will not be reclassified subsequently to profit or loss		27,967	25,764
Other comprehensive (loss)/income for the year, net of tax		(288,458)	23,753
Total comprehensive income for the year, net of tax		6,588,750	4,403,430
Total comprehensive income attributable to:			
- Equity holders of the parent		6,588,750	4,403,430

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

Guardian Life Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

		The Group Attributable to Equity Holders of the Parent				
	Notes	Share Capital (Note 14)	Stock Option Reserve (Note 15)	Reserves (Note 16)	Retained Earnings	Total Equity
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2018		126,525	54,243	3,615,794	12,251,869	16,048,431
Impact of initial application of IFRS 9	41	-	-	427,537	(1,923,114)	(1,495,577)
Balance at 1 January 2018 - restated		126,525	54,243	4,043,331	10,328,755	14,552,854
Profit for the year		-	-	-	6,877,208	6,877,208
Other comprehensive loss		-	-	(288,458)	-	(288,458)
Total comprehensive income		-	-	(288,458)	6,877,208	6,588,750
Transfer to/(from) retained earnings		-	-	1,010,013	(1,010,013)	-
Share option scheme - lapses		-	(13,483)	-	13,483	-
Dividends	33	-	-	-	(1,503,219)	(1,503,219)
Balance at 31 December 2018		126,525	40,760	4,764,886	14,706,214	19,638,385

		The Group Attributable to Equity Holders of the Parent				
	Notes	Share Capital (Note 14)	Stock Option Reserve (Note 15)	Reserves (Note 16)	Retained Earnings	Total Equity
		$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2017		126,525	93,413	2,537,183	10,374,224	13,131,345
Profit for the year		-	-	-	4,379,677	4,379,677
Other comprehensive income		-	-	23,753	-	23,753
Total comprehensive income		-	-	23,753	4,379,677	4,403,430
Transfer to/(from) retained earnings		-	-	1,054,858	(1,054,858)	-
Share option scheme - lapses		-	(39,170)	-	39,170	-
Dividends	33	-	-	-	(1,486,344)	(1,486,344)
Balance at 31 December 2017		126,525	54,243	3,615,794	12,251,869	16,048,431

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

Guardian Life Limited

Consolidated Statement of Cash Flows

As at 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Profit before taxation from continuing operations		8,069,693	5,252,340
Investment income	25	(3,768,294)	(3,892,728)
Adjustment for non-cash items	34	(2,822,392)	(1,856,355)
Interest received		3,625,882	3,853,999
Dividends received		161,790	124,389
Operating profit before changes in operating assets/liabilities		5,266,679	3,481,645
Net (decrease)/increase in insurance contracts		(2,011,994)	300,284
Net increase in investment contracts		3,025	1,107,383
Net decrease/(increase) in loans and receivables		368,427	(1,140,462)
Net increase in other liabilities		808,818	955,654
Cash provided by operating activities		4,434,955	4,704,504
Net taxation paid		(1,056,974)	(418,235)
Net cash provided by operating activities		3,377,981	4,286,269
Cash flows from investing activities			
Purchase of financial assets	10	(6,961,829)	(5,186,234)
Proceeds from sale of financial assets	10	7,056,540	2,977,987
Purchase of investment properties	6	(5,256)	(474,908)
Expenditure on property for development and sale	7	(258,911)	(136,950)
Purchase of property and equipment	5	(196,700)	(127,442)
Proceeds on sale of property and equipment		6,206	-
Purchase of intangible assets	8	(40,154)	(3,884)
Net cash used in investing activities		(400,104)	(2,951,431)
Cash flows from financing activity			
Dividends paid to equity holders of the parent	33	(1,503,219)	(1,486,344)
Net cash used in financing activity		(1,503,219)	(1,486,344)
Net increase/(decrease) in cash and cash equivalents		1,474,658	(151,506)
Effective of exchange rates changes on cash and cash equivalents		20,553	4,385
Cash and cash equivalents at beginning of year		2,864,916	3,012,037
Cash and cash equivalents at end of year	12	4,360,127	2,864,916

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

Guardian Life Limited

Company Statement of Financial Position

As at 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Assets			
Property and equipment	5	2,552,138	2,503,749
Investment properties	6	1,900,373	1,765,884
Property for development and sale	7	490,861	231,950
Intangible assets	8	75,851	69,774
Investment in subsidiaries	9	70	70
Taxation recoverable		996,153	941,384
Financial assets	10	51,363,665	50,189,408
Loans and receivables	11	2,386,717	2,755,144
Cash and cash equivalents	12	4,351,876	2,864,916
Cash and cash equivalents of mutual fund unit holders	12	8,251	-
		64,125,955	61,322,279
Segregated funds' assets	13(a)	14,058,576	11,881,281
Total assets		78,184,531	73,203,560
Equity and liabilities			
Share capital	14	126,525	126,525
Stock option reserve	15	40,760	54,243
Reserves	16	4,764,886	3,615,794
Retained earnings	41	14,706,234	12,251,889
Equity attributable to owners of the parent		19,638,405	16,048,451
Liabilities			
Policyholders' Funds			
Insurance contracts	17	19,998,610	22,010,604
Investment contracts	18	18,865,830	18,862,805
Other policy liabilities	19	1,917,988	1,574,349
		40,782,428	42,447,758
Deferred tax liabilities	20	1,260,515	815,295
Provision for taxation		243,688	275,035
Other liabilities	21	2,200,919	1,735,740
		44,487,550	45,273,828
Segregated funds' liabilities	13	14,058,576	11,881,281
Total liabilities		58,546,126	57,155,109
Total equity and liabilities		78,184,531	73,203,560

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

Approved for issue by the Board of Directors on 20 February 2019 and signed on its behalf by:

M G Rochester

Maxim Rochester **Director**

Eric Hosin **Director**

Guardian Life Limited
Company Statement of Profit or Loss
Year ended 31 December 2018
(Expressed in Jamaican dollars unless otherwise indicated)

Continuing operations:	Notes	2018 $'000	2017 $'000
Insurance activities			
Insurance premium income	22(a)	13,142,380	11,846,755
Insurance premium ceded to reinsurers	22(b)	(530,101)	(422,172)
Net premium income		12,612,279	11,424,583
Reinsurance commission income		79,507	66,475
Net underwriting revenue		12,691,786	11,491,058
Policy acquisition expenses	23	(2,037,498)	(1,777,693)
Net insurance benefits and claims	24	(7,563,565)	(6,951,899)
Decrease/(increase) in reserves for future policy benefits	17(a)	2,012,170	(300,323)
Underwriting expenses		(7,588,893)	(9,029,915)
Net result from insurance activities		5,102,893	2,461,143
Investing activities			
Net investment income	25	3,768,294	3,892,728
Net fair value gains on financial assets at fair value through profit or loss and investment properties	26(a)	2,561,499	2,296,142
Net realized fair value losses on de-recognition of financial assets measured at fair value through other comprehensive income	27(a)	(40,524)	-
Net realized fair value gains on financial assets	27(b)	35,105	20,920
Net impairment gains on other financial assets	30	9,683	-
Fee income	28	624,262	605,079
Foreign exchange gains/(losses)		39,221	(243,276)
Other income	29	37,730	48,883
Investment contract benefits	18	(835,724)	(860,717)
Net income from investing activities		6,199,546	5,759,759
Net income from all activities		11,302,439	8,220,902
Operating expenses	31	(3,232,746)	(2,968,562)
Profit before taxation from continuing operations		8,069,693	5,252,340
Taxation	32	(1,192,485)	(872,663)
Profit attributable to equity holders of the parent		6,877,208	4,379,677

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

Guardian Life Limited

Company Statement of Other Comprehensive Income

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Profit attributable to equity holders of the parent		6,877,208	4,379,677
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	16	(4,385)	(2,011)
Net fair value losses on debt securities at fair value through other comprehensive income		(236,466)	-
Net change in allowance for expected credit losses on debt securities at fair value through other comprehensive income	30	114,836	-
Net losses on disposal of investment securities measured at fair value through other comprehensive income		(250,411)	-
Deferred tax on fair value through other comprehensive income securities	32(c)	60,001	-
Net other comprehensive loss that may be reclassified subsequently to profit or loss		(316,425)	(2,011)
Items that will not be reclassified subsequently to profit or loss:			
Gains on property revaluation	32(c)	37,289	34,352
Deferred tax charge on revaluation gains	32(c)	(9,322)	(8,588)
Net other comprehensive income that will not be reclassified subsequently to profit or loss		27,967	25,764
Other comprehensive (loss)/income for the year, net of tax		(288,458)	23,753
Total comprehensive income for the year, net of tax		6,588,750	4,403,430
Total comprehensive income attributable to:			
- Equity holders of the parent		6,588,750	4,403,430

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

Guardian Life Limited

Company Statement of Changes in Equity

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

		The Company				
		Attributable to Equity Holders of the Parent				
	Notes	**Share Capital (Note 14)**	**Stock Option Reserve (Note 15)**	**Reserves (Note 16)**	**Retained Earnings**	**Re-stated Total Equity**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2018		126,525	54,243	3,615,794	12,251,889	16,048,451
Impact of initial application of IFRS 9	41	-	-	427,537	(1,923,114)	(1,495,577)
Balance at 1 January 2018 – restated		126,525	54,243	4,043,331	10,328,775	14,552,874
Profit for the year		-	-	-	6,877,208	6,877,208
Other comprehensive loss		-	-	(288,458)	-	(288,458)
Total comprehensive income		-	-	(288,458)	6,877,208	6,588,750
Transfer to/(from) retained earnings		-	-	1,010,013	(1,010,013)	-
Share option scheme – lapses		-	(13,483)	-	13,483	-
Dividends	33	-	-	-	(1,503,219)	(1,503,219)
Balance at 31 December 2018		126,525	40,760	4,764,886	14,706,234	19,638,405

		The Company				
		Attributable to Equity Holders of the Parent				
	Notes	**Share Capital (Note 14)**	**Stock Option Reserve (Note 15)**	**Reserves (Note 16)**	**Retained Earnings**	**Total Equity**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2017		126,525	93,413	2,537,183	10,374,244	13,131,365
Profit for the year		-	-	-	4,379,677	4,379,677
Other comprehensive income		-	-	23,753	-	23,753
Total comprehensive income		-	-	23,753	4,379,677	4,403,430
Transfer to/(from) retained earnings		-	-	1,054,858	(1,054,858)	-
Share option scheme – lapses		-	(39,170)	-	39,170	-
Dividends	33	-	-	-	(1,486,344)	(1,486,344)
Balance at 31 December 2017		126,525	54,243	3,615,794	12,251,889	16,048,451

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

Guardian Life Limited

Company Statement of Cash Flows

Year ended 31 December 2018

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Profit before taxation from continuing operations		8,069,693	5,252,340
Investment income	25	(3,768,294)	(3,892,728)
Adjustment for non-cash items	34	(2,822,392)	(1,856,355)
Interest received		3,625,882	3,853,999
Dividends received		161,790	124,389
Operating profit before changes in operating assets/liabilities		5,266,679	3,481,645
Net (decrease)/ increase in insurance contracts		(2,011,994)	300,284
Net increase in investment contracts		3,025	1,107,383
Net decrease/(increase) in loans and receivables		368,427	(1,140,462)
Net increase in other operating liabilities		808,818	955,654
Cash provided by operating activities		4,434,955	4,704,504
Net taxation paid		(1,056,974)	(418,235)
Net cash provided by operating activities		3,377,981	4,286,269
Cash flows from investing activities			
Purchase of financial assets	10	(6,961,829)	(5,186,234)
Proceeds from sale of financial assets	10	7,056,540	2,977,987
Purchase of investment properties	6	(5,256)	(474,908)
Expenditure on property for development and sale	7	(258,911)	(136,950)
Purchase of property and equipment	5	(196,700)	(127,442)
Proceeds on sale of property and equipment		6,206	-
Purchase of intangible assets	8	(40,154)	(3,884)
Net cash used in investing activities		(400,104)	(2,951,431)
Cash flows from financing activity			
Dividends paid to equity holders of the parent	33	(1,503,219)	(1,486,344)
Net cash used in financing activity		(1,503,219)	(1,486,344)
Net increase/(decrease) in cash and cash equivalents		1,474,658	(151,506)
Effect of exchange rate changes on cash and cash equivalents		20,553	4,385
Cash and cash equivalents at beginning of year		2,864,916	3,012,037
Cash and cash equivalents at end of year	12	4,360,127	2,864,916

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

1 Incorporation and Principal Activities

Guardian Life Limited was incorporated in Jamaica on 7 July 1999 and is registered as a limited liability company, operating under the provisions of the Insurance Act 2001. The main activities of the Company are the provision of ordinary life insurance, group life and health insurance and group pension administration. The Company is domiciled in Jamaica and its registered office is located at 12 Trafalgar Road, Kingston 5, Jamaica. The Company also services a small, closed Barbados portfolio.

The Company is a wholly-owned subsidiary of Guardian Insurance Limited, which is a wholly-owned subsidiary of Guardian Holdings Limited, the ultimate parent, both of which are incorporated in the Republic of Trinidad and Tobago.

The Company's subsidiaries, which together with the Company are referred to as "the Group", are as follows:

Subsidiary	Country of Incorporation and Domicile	Principal Activity	Percentage Ownership	
			2018	2017
Guardian Life Properties Limited	Jamaica	Property Management	100	100
Guardian Life Pension Funds Limited	Jamaica	Investment and Management Services	100	100

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and the requirements of the Jamaican Companies Act. They have been prepared on an historical cost basis except for investment properties, freehold and leasehold properties classified as property and equipment and financial assets at fair value through profit or loss and fair value through other comprehensive income, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2 Summary of Significant Accounting Policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

(i) Subsidiary

A subsidiary is an entity over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts whether it has power over an investee, including:

- the contractual arrangement with the other vote-holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of profit or loss.

All intra-group transactions and balances are eliminated on consolidation. The subsidiary's accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of Significant Accounting Policies (Continued)

(b) Consolidation (continued)

(i) Subsidiary (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income, taken to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(c) New standards and amendments/revisions to published standards and interpretations effective in 2018

The following new standards and amendments to published standards are mandatory for the Group's accounting period beginning on or after 1 January 2018:

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

➢ **Classification and measurement of financial assets and liabilities**
IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.

Under IFRS 9 entities initially measure a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortized cost (AC) or fair value through other comprehensive income (FVOCI).

Equity instruments are generally measured at FVPL. However, entities have an irrevocable options on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

IFRS 9 also contain requirements for the classification and measurement of financial liabilities. For financial liabilities designated at FVPL, the change in fair value that is attributable to changes in credit risk is presented in OCI and the remaining amount of change in the fair value is presented in profit or loss. If the presentation in OCI would create or enlarge an accounting mismatch in profit or loss, an entity shall present all gains or losses in profit or loss.

Guardian Life Limited

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2 Summary of Significant Accounting Policies (Continued)

(c) New standards and amendments/revisions to published standards and interpretations effective in 2018 (continued)

IFRS 9 Financial Instruments (continued)

- **Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to debt instruments measured at AC or FVOCI, most loan commitments, financial guarantee contracts, lease receivables and to contract assets.

Entities are required to recognise 12-month ECLs on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial asset, whereas 12-month ECLs are the portion of ECLs that results from default events that are possible within the 12 months after the reporting date.

For trade receivables, a simplified approach may be applied whereby the lifetime ECLs are always recognised from initial recognition.

- **Hedge Accounting**

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39, that is, fair value hedges, cash flow hedges and net investment hedges. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

The Group has adopted IFRS 9, which resulted in fundamental changes to accounting for its financial assets. Hedge accounting is not applicable to the Group and there are no changes to the Group classification of financial liabilities, that is, at amortised cost.

The changes in accounting policies in respect of adopting IFRS 9 are described in Notes 2(k) and 2(l), and the impact of the initial application is disclosed in Note 41.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces all previous revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, unless the contracts are in the scope of other standards. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

Guardian Life Limited

2 Summary of Significant Accounting Policies (Continued)

(c) New standards and amendments/revisions to published standards and interpretations effective in 2018 (continued)

IFRS 15 Revenue from contracts with customers (continued)

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. IFRS 15 also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

IFRS 15 did not have a material impact on the Group’s accounting policies and did not require retrospective adjustments.

Amendments to IAS 40: Transfers of Investment of Property

The amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use.

The amendments had no impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for the item has been paid or received in advance in a foreign currency, which resulted in the recognition of a non-monetary asset or a non-monetary liability (e.g. non-refundable deposit or deferred revenue).

The interpretation specifies that the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, an entity must determine a date of the transactions for each payment or receipt of advance consideration.

The adoption of this interpretation did not have a material impact on the Group.

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2 Summary of Significant Accounting Policies (Continued)

(c) New standards and amendments/revisions to published standards and interpretations effective in 2018 (continued)

Annual Improvements to IFRSs 2014 - 2016 Cycle

Amendments to IAS 28 Investments in Associates and Joint Ventures: Measuring investees at fair value through profit or loss on an investment-by investment basis

IAS 28 allow venture capital organizations, mutual funds, unit trusts and similar entities (including investment-linked insurance funds) to elect measuring their investments in joint ventures and associates at fair value through profit or loss. The amendments clarify that this election can be made on an investment-by-investment basis, upon initial recognition.

The amendments also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments had no impact on the Group's consolidated financial statements.

(d) New standards and amendments/revisions to published standards and interpretations effective in 2018 but not applicable to the Group

The following new IFRS amendments that have been issued do not apply to the activities of the Group:

- ► Amendments to IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions
- ► Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- ► IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters.

2 Summary of Significant Accounting Policies (Continued)

(e) New standards, interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group

The following is a list of new IFRS standards, interpretations and amendments issued that are not yet effective as at 31 December 2018 and have not been early adopted by the Group. For all standards, interpretations and amendments effective 1 January 2019, except for IFRS 16 Leases, the Group is currently evaluating the impact of adoption, but does not anticipate they would have a material impact on its consolidated financial statements.

Effective 1 January 2019:

- IFRS 9 Financial Instruments - Amendments - Prepayment Features with Negative Compensation
- IFRS 16 Leases (see Note (2e) below)
- IAS 19 Employee Benefits - Amendments - Plan Amendment, Curtailment or Settlement
- IAS 28 Investment in Associates and Joint Ventures - Amendments - Long-term Interests in Associates and Joint Ventures
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Annual Improvements to IFRSs 2015 - 2017 Cycle:

- IFRS 3 Business Combinations - Previously held interests in a joint operation
- IFRS 11 Joint Arrangements - Previously held interests in a joint operation
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization

Effective 1 January 2020:

- Definition of Material- Amendments to IAS 1 and IAS 8
- Definition of a Business- Amendments to IFRS 3

Amendments Postponed

- IFRS 10 and IAS 28 - Amendments - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - In December 2015, the IASB deferred the effective date of the amendments until such time it has finalized any amendments that result from its research project on the equity method of accounting.

2 Summary of Significant Accounting Policies (Continued)

(e) New standards, interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

Guardian Life Limited

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2 Summary of Significant Accounting Policies (Continued)

(e) New standards, interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group (continued)

IFRS 16 Leases

IFRS 16, which is effective 1 January 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets (right-of-use assets) and lease liabilities on the statement of financial position for most leases. Lessees will also now separately recognise interest expense on the lease liability and depreciation expense on the right-of-use asset in the statement of profit or loss.

Lessor accounting is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group will adopt IFRS 16 on 1 January 2019 and elect the modified retrospective approach transition option and the practical expedients permitted under this approach. Under the modified retrospective approach, the Group will elect the option to measure the right-of-use asset as the lease liability adjusted for prepaid or accrued payments and the Group will not restate comparative amounts.

The Group has completed an initial assessment of the potential impact of adopting IFRS 16 on its consolidated financial statements. The most significant impact identified is the Group will recognise new assets and liabilities for its operating leases of office space and motor vehicles. In addition, the nature of expenses related to these leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

On date of initial application of IFRS 16, the Group will recognise right-of-use assets and lease liabilities.

2 Summary of Significant Accounting Policies (Continued)

(f) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Jamaican dollars, which is the Group's functional and presentation currency.

Transactions and balances in the financial statements
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Foreign operations
The statement of profit or loss of foreign operations and Group companies with functional currencies other than Jamaican dollars is translated into Jamaican dollars at average exchange rates for the year and the statement of financial position is translated at the exchange rates ruling at year-end. The resulting translation differences are recorded directly in the currency translation reserve in the statement of other comprehensive income. When a foreign operation is sold, the cumulative translation differences are recognized in the statement of profit or loss as part of the gain or loss on sale.

2 Summary of Significant Accounting Policies (Continued)

(g) Property and equipment

Freehold and leasehold properties are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Other items of property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

A revaluation surplus is recorded in the statement of other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in asset revaluation reserve.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold property	2% per annum
Leasehold property	over the period of the lease
Office furniture and equipment	10% per annum
Computer equipment	10-33 1/3% per annum
Motor vehicles	20% per annum

Land is not depreciated.

Gains and losses arising on the disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

An asset's carrying amount is written down immediately to the net realizable value where the carrying amount is greater.

Repair and maintenance expenditure is charged to the statement of profit or loss. Improvement expenditure is included in the cost of the related asset.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2 Summary of Significant Accounting Policies (Continued)

(h) Investment properties and property for development and sale

(i) Investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, representing open market value determined annually by professional external valuators. Changes in fair values are recorded in the statement of profit or loss. Investment properties are not subject to depreciation.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

(ii) Properties for development and sale

Properties for sale or under construction that are intended for sale are classified as properties for development and sale. These balances are carried at the lower of cost and net realizable values. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated selling expenses. Impairment losses on properties for development and sale are recognized in the consolidated statement of profit or loss when the net realizable value is lower than cost.

(i) Intangible assets

Computer software and website development costs.

Acquired computer software licences and website development costs are recognised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are also recognised as intangible assets. Amortisation is calculated using the straight line method to allocate costs over their estimated useful lives which range between 3 and 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Intangible assets that are fully amortized but which are still in use are disclosed in Note 8.

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2 Summary of Significant Accounting Policies (Continued)

(j) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset’s fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

(k) Financial assets (Policy applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are recognised when Group entities become a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All related transaction costs for financial assets recognised at fair value through profit of loss are expensed.

The Group's financial assets include cash and short-term deposits, debt securities, equity securities, interest receivable, receivables arising from insurance contracts and reinsurance contracts and other loans and receivables.

Classification and subsequent measurement

Debt instruments

Subsequent to initial recognition, the Group's debt instruments are measured in accordance with the business models determined by the Group’s respective business units for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classified its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowance recognised. In addition to certain debt securities, the Group's loans and receivables are carried at amortised cost.

(ii) Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss.

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2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policy applicable from 1 January 2018) (continued)

Classification and subsequent measurement (continued)

Debt instruments (continued)

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated statement of profit or loss in the period in which it arises. The Group may, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets held for trading, or are managed and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be infrequent.

Business model assessment

The Group's business units determine their business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. Factors considered by the business units in determining the business model for a group of assets include:

- ► the stated policies and objectives for the group of assets 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 with the duration of any related liabilities or expected cash outflows or realising cash flows through sale of the assets;
- ► how performance of the group of assets is evaluated and reported to 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;
- ► how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ► the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

If cash flows after initial recognition are realised in a way that is different from original expectations, the business units do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policy applicable from 1 January 2018) (continued)

Classification and subsequent measurement (continued)

Business model assessment (continued)

The solely payment of principal and interest (SPPI) test
‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). '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 other basic lending risks and costs, as well as a profit margin.

Where the business model is to hold assets and collect contractual cash flows or to collect contractual cash flows and sell, the Group's business units assesses whether the financial assets' cash flows represent solely payments of principal and interest. In making this assessment, the business units considers whether the contractual cash flows are consistent with a basis lending arrangement i.e. the definition of interest. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

Subsequent to initial recognition, the Group measures all equity investments at fair value, and changes in the fair value of equity instruments are recognised in the consolidated statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policy applicable from 1 January 2018) (continued)

Classification and subsequent measurement (continued)

Derecognition of financial assets (continued)

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in the consolidated statement of profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to the consolidated statement of profit or loss.

Modifications of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different from that of the original asset. If the terms are substantially different, the Group derecognises the original financial asset and recognises a new financial asset at fair value. The date of modification is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. The Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the modification was driven by the debtor being unable to make the originally agreed payments.

If the cash flows of the modified asset are not substantially different, the modification does not result in derecognition of the financial asset. The Group recalculates the gross carrying amount of the financial asset based on revised cash flows, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets), and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of profit or loss.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policies applicable from 1 January 2018) (continued)

Impairment of assets

At each reporting date, the Group assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets measured at amortised cost and fair value through other comprehensive income (excluding equity instruments).

The Group measures loss allowances on its debt instruments at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised is 12-month ECL:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial asset, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date.

For receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Loss allowances for ECL are presented in the consolidated financial statements as follow:

- Financial assets measured at amortised cost: the loss allowance is deducted from the gross carrying amount of the assets in the statement of financial position. Movement in ECL is recognised in the consolidated statement of profit or loss.
- Debt instruments measured at fair value through other comprehensive income: the loss allowance is recognised in other comprehensive income with the corresponding entry recognised in the consolidated statement of profit or loss. The loss allowance does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policies applicable from 1 January 2018) (continued)

Impairment of assets (continued)

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring as at the reporting date with the risk of default occurring as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

► the remaining lifetime probability of default as at the reporting date; with

► the remaining lifetime probability of default for this point in time that was estimated at the time of initial recognition of the exposure.

The qualitative assessment to identify whether credit risk has increased significantly since initial recognition takes into account the following:

► Actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

► Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;

► Actual or expected significant changes in the operating results of the debtor;

► Significant increases in credit risk on other financial instruments of the debtor;

► Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor;

► Actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant change in the debtor's ability to meet its debt obligation.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrated otherwise.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policies applicable from 1 January 2018) (continued)

Impairment of assets (continued)

Despite the aforementioned, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial instrument has a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt instruments carried at fair value through comprehensive income 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 debtor or issuer;
- A breach of contract, such as a default or past due event;
- The disappearance of an active market for a financial asset because of financial difficulties;
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- Rating agencies’ assessments of creditworthiness.

Definition of default
The Group considers a financial asset to be in default when:
- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the debtor is past due more than 90 days unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate

In assessing whether a debtor is in default, the Group considers indicators that are qualitative, quantitative and based on data developed internally and obtained from external sources.

Write-off
The Group writes off financial assets, either partially or in full, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity and where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

2 Summary of Significant Accounting Policies (Continued)

(k) Financial assets (Policies applicable from 1 January 2018) (continued)

Impairment of assets (continued)

Measurement of expected credit losses
The measurement of expected credit losses is a function of:
(i) Probability of default - an estimate of the likelihood of default over a given time horizon;
(ii) Loss given default - an estimate of the loss arising in the case where a default occurs at a given time;
(iii) Exposure of default - an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Forward-looking information considered by the Group includes economic data and forecasts published by governmental bodies and monetary authorities, supranational organisations such as the Organization for Economic Cooperation and Development and the International Monetary Fund, and selected private-sector and academic forecasters.

Expected credit losses are measured as the present value of all cash shortfalls i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The mechanics of the expected credit losses method are summarised below:

► A financial instrument that is not credit-impaired on initial recognition, a 12-month ECL allowance is calculated. The Group calculates the 12-month ECL allowance based on the expectation of a default occurring in the twelve months following the reporting date. The expected 12-month default probability is applied to a forecast exposure at default and multiplied by the expected loss given default, and discounted by the original effective interest rate.

► When a financial instrument has shown a significant increase in credit risk since initial recognition, the Group records an allowance for life-time ECL. The mechanics are similar to 12-month ECL calculation on a financial instrument that is not credit-impaired on initial recognition, but default probability and loss given default are estimated over the life of the instrument.

► A financial instrument that is credit-impaired, but is not a purchased or originated credit-impaired financial instrument, the Group records an allowance for lifetime ECL calculated similar to lifetime ECL on a financial instrument that has shown a significant increase in credit risk since initial recognition.

► Purchased or credit-impaired financial assets are assets that are credit-impaired on initial recognition. ECL on these assets are always measured on a lifetime basis, discounted by a credit adjusted effective interest rate. The Group has no purchased or credit-impaired financial instruments.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type; credit risk ratings; nature, size and industry of debtors; collateral type; and geographic location of the debtor.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

2 Summary of Significant Accounting Policies (Continued)

(l) Financial assets (Policies applicable prior 1 January 2018)

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments as appropriate. The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date.

The Group's financial assets include cash and short-term deposits, debt securities, equity securities, interest receivable, receivables arising from insurance contracts and reinsurance contracts and other loans and receivables.

Investment securities at fair value through profit or loss

Investment securities at fair value through profit or loss include investment securities held-for-trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. The Group's subsidiaries, with the exception of its asset management company, do not engage in trading investment securities. For investments designated at fair value through profit or loss, the following criteria must be met:

► The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

► The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the consolidated statement of profit or loss.

Held-to-maturity investment securities

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held to maturity financial assets are measured at amortized cost, using the effective interest rate, less impairment. Gains and losses are recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortization process. Where the Group is required to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

2 Summary of Significant Accounting Policies (Continued)

(l) Financial assets (Policies applicable prior 1 January 2018) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate. Receivables arising from insurance contracts (for example policyholders' loans) are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in the consolidated statement of profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to the consolidated statement of profit or loss.

2 Summary of Significant Accounting Policies (Continued)

(l) Financial assets (Policies applicable prior 1 January 2018) (continued)

Fair value of financial assets

The fair values of quoted investments (primarily equity securities) are based on current bid prices at the statement of financial position date. If the market for a financial asset is not active (primarily government securities, debentures and corporate bonds), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recognised in the statement of profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each statement of financial position date.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

2 Summary of Significant Accounting Policies (Continued)

(m) Fair value measurement

The Group measures financial instruments and non-financial assets at fair value at each statement of financial position date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market. If there is no quoted price in an active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 Summary of Significant Accounting Policies (Continued)

(m) Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(i) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities. Financial assets in this category are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Financial assets are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in mutual funds with published net asset values and evidence of trades and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

(iii) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.
Assets and liabilities included in level 3 are held at cost, being the fair value of the consideration paid on acquisition and are regularly assessed for impairment. These financial assets are not quoted as there are no active markets to determine a price. The main asset class in this category is unlisted equity instruments.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuators are involved for valuation of certain assets such as investment properties, freehold and leasehold properties. Involvement of external valuators is decided upon annually and selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

2 Summary of Significant Accounting Policies (Continued)

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, money market placements and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Cash and cash equivalents are carried at amortised cost on the consolidated statement of financial position except for cash and cash equivalents allocated to unit-linked insurance contracts, which are carried at fair value through profit or loss.

(o) Special investment reserve

The special investment reserve is a regulatory reserve established to manage the extent to which unrealized gains recognised in the statement of profit or loss are available for distribution. Consistent with the regulatory requirements, the unrealized gains on investment properties and quoted equities classified as fair value through profit or loss are transferred to and from this reserve as follows:

Net unrealized gains brought forward at the beginning of each year are transferred from the special investment reserve to retained earnings at the following rates:

Quoted equities - 25%
Investment properties - 10%

Net unrealized gains earned during the year are transferred from retained earnings to the special investment reserve at the following rates:

Quoted equities - 75%
Investment properties - 90%

(p) Insurance and investment contracts

(i) Classification

The Group 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. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk includes credit, liquidity and market risks.

A number of insurance contracts (participating policies) contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the Group; and
- that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and/or unrealized investment returns on a specified pool of assets held by the Group or the profit or loss of the Group, fund or other entity that issues the contract.

The terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

2 Summary of Significant Accounting Policies (Continued)

(p) Insurance and investment contracts (continued)

(ii) Recognition and measurement

Insurance and investment contracts are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

1) Short-term insurance contracts
These contracts are principally group life and health insurance contracts.

Group life contracts protect the group's members from the consequences of events, such as critical illness or disability, that would affect the ability of the insured to maintain his/her current level of income and minimizes the impact of death on the financial security of the insured's dependents.

Health insurance contracts provide for preventative medical treatment, treatment for unexpected medical conditions and drugs. On these contracts, the benefits paid on occurrence of the specified insured event are either fixed or linked to the extent of the economic loss suffered by the policyholder. The Group's liability is limited to the extent of the lifetime maximum on each contract. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Premiums received in advance represent the portion of premiums written in the current year which relate to periods of insurance subsequent to the statement of financial position date.

Claims and loss adjustment expenses are charged to the statement of profit or loss as incurred based on the estimated liability for compensation owed to policyholders. They arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Group. Liabilities for unpaid claims are estimated using techniques such as the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

Claims payable represent the gross cost of all claims notified but not settled on the statement of financial position date.

2) Long-term insurance contracts with fixed and guaranteed terms and without DPF.
These include annuities, traditional life, unit-linked and interest sensitive contracts.

These contracts insure events associated with human life (for example survival, or death) over a long duration. The premiums paid for these contracts contain an element that covers the insured event and may include another element which is used to accumulate cash values available for withdrawal at the option of the policyholder.

Premiums covering insurance risks are recognised as revenue when they become payable by the policyholder and are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

2 Summary of Significant Accounting Policies (Continued)

(p) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

2) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

A liability for policyholders' benefits that are expected to be incurred in the future is established on acceptance of the insurance risk. The liability is actuarially determined using the Policy Premium Method as required under the Insurance Act 2001. Under this method, allowance is made for the present value of estimated amounts for future claims and benefits, projected net investment income on assets supporting policyholders' liabilities; future expected premiums and projected policy maintenance expenses. The liability is also based on key assumptions made with respect to variables such as mortality, persistency, investment returns and the rate of inflation. A margin for adverse deviations is included in the assumptions.

An actuarial valuation is prepared at least annually. Changes in the policyholders' liability are recorded as an expense in the statement of profit or loss.

Unit linked insurance contracts
Unit-linked funds represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The returns earned by the investments of the funds, inclusive of realized and unrealized gains and losses accrued directly to the policyholders.

For the unit linked contracts, the portion of the premium covering the insured risk is recorded as premium income. The portion of the premium which accumulates a cash value for the policyholder is unbundled and recorded as a liability and credited to the account of the policyholder in the respective unit-linked fund to which the contract is linked.

The liabilities arising from the unit linked contracts comprise the liability for the insured risk and the accumulated cash value. The liability for the insurance risk is determined in a manner identical to the liability for contracts with fixed and guaranteed terms and is included in the policyholders' liability balance while the liability for the accumulated cash value is carried at fair value and is determined by reference to the fair value of the assets which fund the liabilities. The liabilities for the accumulated cash values are included in the segregated funds' liability balance (See Note 13). All risks and rewards accrue to the policy-holders who are invested in the segregated funds.

The asset and liabilities of the segregated funds are carried at fair values. Deposits and withdrawals are charged or are credited to the segregated fund liabilities. Unit values are determined by dividing the value of the assets in the funds on a valuation date by the number of units in the funds on the valuation date. The Group earns fees for the management of the funds' assets, policy administration, as well as for effecting the encashment of units.

Guardian Life Limited

Notes to the Consolidated Financial Statements
31 December 2018
(Expressed in Jamaican dollars unless otherwise indicated)

2 Summary of Significant Accounting Policies (Continued)

(p) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

2) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

Interest sensitive contracts
For the interest sensitive policies, the entire premium is recorded as premium income and there is no unbundling of the premium receipt between the insurance and investment components. The liability for the interest sensitive policies is determined as the sum of the liability for the insured risk as determined above for the unit linked policies and the liability for the accumulated cash values. These cash values earn interest and the interest credited to the account of the respective policies is charged as an expense in the statement of profit or loss. The entire liability for the interest sensitive policies is recorded in policyholders' liability.

The change in the overall liability for the interest sensitive policies is recorded as an expense in the statement of profit or loss.

For interest sensitive policies, interest credited to the account of the respective policies is charged as an expense in the statement of profit or loss.

3) Long-term insurance contracts with fixed and guaranteed terms and with DPF.
These include contracts participating in company profits (Par Contracts/Contracts with DPF). In addition to death or life benefits, these contracts entitle the holders to a bonus or dividend declared by the Company from time to time. Any bonus declared and not credited to individual contract holders is treated as a liability for the benefit of all contract holders until credited to them individually in future periods.

The discretionary elements of the benefits payable under these policies, as well as the guaranteed elements are treated as liabilities and any changes in the total benefits due are reflected as charges in the statement of profit or loss and form part of increases in reserves for future benefits of policyholders.

4) Investment contracts
The Company issues investment contracts to groups of employers through the approved deposit administration fund. The Company also manages unit-linked funds that are legally separated from the general operations. The underlying assets of these funds are included in these financial statements.

Deposit administration funds
Deposit administration funds represent liabilities under investment contracts issued by the Company to approved schemes, for the provision of pension benefits to their employees. The assets backing these liabilities are managed by the Company but are not legally separated from the Company's general operations. The assets and liabilities of these funds are included in these financial statements.

The returns on these funds are guaranteed by the Group by stated rates of interest which are revised at management's discretion. Liabilities under deposit administration fund contracts are carried at amortized cost, which approximate their fair values.

The Company earns administration and investment fees on the management of these funds and incurs interest expense on the funds. Management and investment fees and interest expense are recorded in the consolidated statement of profit or loss.

2 Summary of Significant Accounting Policies (Continued)

(p) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

Liability adequacy test
At each statement of financial position date, the Group assesses whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the deficiency is recognised in the statement of profit or loss and the amount of the relevant insurance liabilities is increased.

Claims payable
Provision for claims and the related costs of settlement are based on incidents reported before the end of the financial year. Any reinsurance recoverable is shown as a receivable from the re-insurer.

Policy acquisition costs
Under the Policy Premium Method of actuarial valuation, the cost of acquiring new insurance business, consisting primarily of commissions and underwriting expenses is implicitly recognised as a reduction in actuarial liabilities.

Derivatives embedded in insurance contracts
The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate) as they (the options) are insurance contracts and are closely related to the host insurance contract.

Reinsurance contracts held
Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to re-insurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss.

2 Summary of Significant Accounting Policies (Continued)

(p) Insurance and investment contracts (continued)

(ii) Recognition and measurement (continued)

Reinsurance contracts held (continued)
The Group gathers objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the reinsurance receivable that can be reliably estimated.

Objective evidence that a reinsurance asset is impaired includes:

(i) Significant financial difficulty of the reinsurer;
(ii) A breach of contract, such as a default or delinquency in payments;
(iii) It becoming probable that the reinsurer will enter bankruptcy or other financial organization; and
(iv) Deterioration of the rating of the reinsurer.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of profit or loss.

(q) Taxation

Taxation on the profit or loss for the year comprises current and deferred income tax charges.

(i) Current Income tax
Current income tax charges are based on taxable profit for the year. Taxable profit differs from the reported profit before taxation arising from adjustments for items that are exempt from taxation or not deductible and items that are taxable or deductible in other years. The Group provides for current tax expense calculated at tax rates at the date of the statement of financial position that have been enacted or substantially enacted in each jurisdiction in which it operates.

2 Summary of Significant Accounting Policies (Continued)

(q) Taxation (continued)

(i) Current Income tax (continued)
Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax
Deferred tax liabilities 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 recognised.

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 recognised or the liability will be settled based on enacted rates.

Deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same tax authority and when there is a legally enforceable right to offset current tax assets against current tax liabilities.

Current and deferred taxes are recognised as income tax expense or benefit in the statement of profit or loss except, where they relate to items recorded in other comprehensive income, they are also charged or credited to other comprehensive income.

(iii) Sales tax
Revenues, expenses and assets are recognised net of the amount of sales taxes except;

- Where the sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

Effective 3 April 2017, the General Consumption Tax (GCT) Act was amended to include tax on Group Health Premiums billed commencing May 2017. The tax is charged at the standard GCT rate of 16.5%. A tax liability is recognized when policyholders are invoiced and is settled on the last working day of the month, following the month in which payments are received from policyholders.

Outstanding net amounts of sales tax recoverable from, or payable to, the tax authorities are included as part of receivables or payables in the statement of financial position.

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 Summary of Significant Accounting Policies (Continued)

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is recognized as follows:

Premium income

Premiums, including those in respect of single premium life contracts, are recognized as earned when due and are stated net of reinsurance premiums in the statement of profit or loss.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a monthly pro rata basis. The proportion attributable to subsequent periods is deferred and recorded as deposits on premiums and premiums received in advance on the statement of financial position.

Interest income

Interest income is recognized using the effective interest method. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

► Purchased or originated credit-impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.

► Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost i.e. net of the expected credit loss provision.

Recognition of interest income is similar under IAS 39 and IFRS 9.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Rental income

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Rental income arising from operating leases on investment properties are charged to the statement of profit or loss on a straight line basis over the life of the lease.

Realized and unrealized investment gains and losses

Realized and unrealized gains and losses on investments measured at amortized cost or fair value through profit or loss are recognized in the consolidated statement of profit or loss in the period in which they arise.

Unrealized gains and losses on investment securities measured at fair value through other comprehensive income are recognized in other comprehensive income. On derecognition, debt securities gains and losses accumulated in other comprehensive income are reclassified to the consolidated statement of profit or loss.

Fee income

Fees are earned from the management of the assets of the segregated, deposit administration, and pooled pension funds and from general policy administration and surrenders. Fees are recognized in the period in which these services are rendered.

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2 Summary of Significant Accounting Policies (Continued)

(t) Prepaid commissions

Prepaid commissions are written off over the first year of each policy. Where policies have lapsed during the period, commissions are recovered from the agents and are included in the statement of profit or loss at the time of recovery.

(u) Employee benefits

(i) Pension plans

The Company operates a defined contribution plan, the assets of which are held in a separate trustee administered fund. Employees are required to contribute 5% of pensionable salary while the Company contributes an additional 5%.

(ii) Share-based compensation

The Group participates in an equity-settled share-based compensation plan operated by the holding Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of options granted, excluding the impact of any non-market vesting conditions (for example, net profit growth target). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable.

At the statement of financial position date, the Group revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, and a corresponding adjustment to equity over the remaining vesting period. When the options are exercised, the proceeds received net of any transaction costs are credited to the Share Option Reserve.

Effective 1 January 2017, Guardian Holdings Limited replaced its Group equity-settled share-based compensation plan with a Group cash-based long-term performance incentive plan. Accruals are made annually based on the ultimate expected and approved payments to eligible executives.

(iii) Bonus plan

The Group recognizes a liability and an expense for bonuses and, based on a formula that takes into consideration the profit attributable to the Company's shareholders. The Group recognizes a provision where contractually obliged or where past practice has created a constructive obligation.

(iv) Cash-based long-term incentive plan

Effective 1 January 2017, the Group implemented a cash-based long-term incentive plan for its senior executives. Awards are based on the Group achieving certain three-year targets. At each consolidated statement of financial position date, the Group estimates the awards to be granted at the end of the three-year cycle and recognizes the pro-rated cost as an expense. The impact of any revision of estimates made in respect of the previous years will be recognized in the current year's consolidated statement of profit or loss.

(v) Dividends paid

Dividends paid to the Company's shareholders are recognised as appropriations from retained earnings in the period in which the dividends are approved by the Company's Board of Directors.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Critical accounting estimates

Estimate of future benefit payments and premiums arising from long-term insurance contracts
The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. Estimations of the mortality rate determine the value of the benefit payments. The main source of uncertainty is that epidemics such as AIDS and wide-ranging lifestyle changes, such as eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk.

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Under certain contracts, the Group has offered guaranteed annuity options. In determining the value of these options, management has assumed that 100% of the annuity options are exercised. There is no reinsurance protection held in respect of these contracts that would reduce these amounts. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. See Note 36 (a) for the sensitivity of the value of insurance liabilities to changes in assumptions used to value the liabilities.

The average estimated rate of investment return is 5.13% for the next fifteen years and 5.00% beyond (2017 – 4.84% for the next fifteen years and 4.75% beyond). Should the average future investment returns decrease/increase by 2% (2017 – 2%) from management's estimates, the value of the assets available to meet the insurance liability would increase/decrease by $5,199,487,000/$3,523,072,000 (2017: $5,712,046,000/ $3,803,131,000).

Business model assessment
Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and as a result prospective change to the classification of those assets.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Critical accounting estimates (continued)

Fair valuation of financial assets (See Note 10)
The fair value of financial assets that are not traded in an active market is determined by using an internally developed bond valuation model. Assumptions used in this model are validated and periodically reviewed internally by qualified personnel. Where applicable, data is calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions used in valuations could affect reported fair value of financial assets. Key assumptions are based on current market yields. The following table shows the effect on the profit or loss and fair value reserve to changes in the market yields.

	Effect on fair value reserve		Effect on consolidated statement of profit or loss	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Decrease/(increase) in market yields				
2%	(814,916)	-	(889,673)	(1,005,798)
-2%	814,916		889,673	1,005,798

Impairment losses on financial assets
The measurement of expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's expected credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit loss models that are considered accounting judgements and estimates include:

- ► The Group's criteria for assessing if there has been a significant increase in credit risk and whether allowances for financial assets should be measured on a lifetime expected credit loss basis including any qualitative assessment
- ► The segmentation of financial assets when their ECL is assessed on a collective basis
- ► Development of ECL models, including the various formulas and the choice of inputs
- ► Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the expected credit loss models
- ► Determination of associations between macroeconomic scenarios and, economic inputs and the effect on probabilities of default, exposure at default and loss given default.

The Group regularly reviews its internal models in the context of actual loss experience and makes adjustments when necessary.

Judgments in applying accounting policies

Income taxes (see Note 32)
Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact that current and deferred income tax provisions in the period in which such determination is made.

3 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Judgments in applying accounting policies (continued)

Property and equipment and intangible assets (see Notes 5 and 8)
Management exercises judgment in determining whether costs incurred can accrue significant future economic benefits to the Group to enable the value to be treated as a capital expense or intangible asset. Further judgment is applied in the annual review of the useful lives of all categories of property and equipment and intangible assets and the resulting depreciation/amortization determined thereon.

Impairment losses on loans and receivables
In determining amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans and receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans and receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant loans and receivables with similar characteristics, such as credit risks.

Held-to-maturity investments (Critical accounting estimates and judgement prior 1 January 2018) (See Note 10)
Prior to 1 January 2018 the Group followed the IAS 39 guideline on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity. This classification required significant judgment. In making this judgment, the Group evaluated its intention and ability to hold such investments to maturity. If the Group failed to keep these investments to maturity other than for specific circumstances, for example, selling an insignificant amount close to maturity, it would be required to reclassify the entire category. The investments would therefore be measured at fair value, not at amortised cost. The carrying amount of held-to-maturity investments as at 31 December 2017 was $23 billion. If the entire class of held-to-maturity investments was tainted, the carrying value would have increased by $575 million as at 31 December 2017 with a corresponding entry in consolidated statement of profit or loss.

4. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors, pursuant to the Insurance Act, appoints the actuary. The actuary's responsibility is to carry out an annual valuation of the Group's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation, the 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 Group and the insurance policies in force.

The shareholders pursuant to the Jamaican Companies Act appoint the external auditors. The auditors' responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the shareholders. In carrying out their audit, the auditors also make use of the work of the appointed actuary and the actuary's report on the policyholders' liabilities.

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5 Property and Equipment

	The Group and The Company			
	Freehold and Leasehold Properties	Office Furniture and Equipment	Motor Vehicles	Total
	$'000	$'000	$'000	$'000
At 31 December 2018				
Opening net book amount	1,956,005	490,432	57,312	2,503,749
Revaluation surplus	37,289	-	-	37,289
Additions	11,438	99,770	85,492	196,700
Disposals and adjustments	-	1	(2,985)	(2,984)
Depreciation charge	(33,188)	(118,846)	(30,582)	(182,616)
Closing net book amount	1,971,544	471,357	109,237	2,552,138
At 31 December 2018				
Cost or valuation	2,046,461	1,649,286	186,164	3,881,911
Accumulated depreciation	(74,917)	(1,177,929)	(76,927)	(1,329,773)
Closing net book amount	1,971,544	471,357	109,237	2,552,138

	The Group and The Company			
	Freehold and Leasehold Properties	Office Furniture and Equipment	Motor Vehicles	Total
	$'000	$'000	$'000	$'000
At 31 December 2017				
Opening net book amount	1,938,488	507,429	76,662	2,522,579
Revaluation surplus	34,352	-	-	34,352
Additions	15,886	95,136	16,420	127,442
Disposals and adjustments	-	(18)	(9,400)	(9,418)
Depreciation charge	(32,721)	(112,115)	(26,370)	(171,206)
Closing net book amount	1,956,005	490,432	57,312	2,503,749
At 31 December 2017				
Cost or valuation	2,000,755	1,553,501	132,677	3,686,933
Accumulated depreciation	(44,750)	(1,063,069)	(75,365)	(1,183,184)
Closing net book amount	1,956,005	490,432	57,312	2,503,749

At 31 December 2018, all properties with a freehold and investment component were professionally valued, at open market value, by independent valuators. Open market value for the respective properties is derived based on a combination of the sales comparison approach and investment approach as defined in Note 6. The surplus arising on the property revaluation has been credited, net of deferred tax, to the property revaluation reserve.

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5 Property and Equipment (Continued)

The original cost or purchase price of property and equipment that have been fully depreciated but which are still in use are listed by categories below.

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Freehold and leasehold properties	16,165	14,892
Office furniture and equipment	764,565	669,643
Motor vehicles	3,677	11,719
Total	784,407	696,254

If freehold and leasehold properties were stated on a historical cost basis, the amounts shown for the Group and the Company would be as follows:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Cost	889,628	878,190
Accumulated depreciation	(168,915)	(117,934)
Net book amount	720,713	760,256

6 Investment Properties

Investment properties consist of investments in residential, commercial and mixed use properties, located in Jamaica.

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
At 1 January	1,765,884	1,283,529
Additions	5,256	474,908
Fair value gains (Note 26)	129,233	102,447
Transfer to property for development and sale (Note 7)	-	(95,000)
At 31 December	1,900,373	1,765,884
Rental income	31,032	36,290
Direct operating expenses incurred in respect of investment properties that generated rental income during the year	15,020	14,319

At 31 December 2018, investment properties were professionally valued, at open market value, by D.C Tavares & Finson Realty Limited (31 December 2017 - D.C Tavares & Finson Realty Limited and Allison Pitter and Company). Both companies are accredited in Jamaica specializing in the valuation of commercial, residential and mixed use properties. The surplus arising on the property revaluation has been credited to the statement of profit or loss.

6 Investment Properties (Continued)

Residential properties are mainly revalued using the sales comparison approach which estimates the fair value based on sale prices of properties of similar nature or in similar locations with price adjustments being made for any notable differences between the sample and subject properties.

Commercial properties were primarily valued using the sales comparison approach (2017- sales comparison and investment approach). The investment approach involves determining the value of the properties by applying an appropriate valuation model to convert the expected future cash flows into present values. Discount rates applied to the model in 2017 ranged from 7.0% to 9.0% as deemed most appropriate by the valuator.

No investment property in the Group is subject to any liens or mortgages and there are no curtailments with regard to the transfer, resale or other use of its investment properties.

Effective 31 July 2017, $95,000,000 was transferred to Property for development and sale representing the 50% holding of the Company's stake in the Hampshire development project (see Note 7).

Direct operating expenses of $5,356,000 (2017: $3,627,000) was incurred for Investment properties for which no rental income was earned during the period.

The Group has assessed that the highest and best use of its properties does not differ from their current use, except for one property, for which management has been granted approval by the Local Planning Authority for 100% residential use.

7 Property for development and sale

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
At 1 January	231,950	-
Transfer from investment properties	-	95,000
Capital expenditure	258,911	136,950
At 31 December	490,861	231,950

As at 31 December 2018, there was one property for development and sale, namely the Hampshire, which is carried at cost. The property is jointly owned by the Group's Deposit Administration Fund and the Pooled Real Estate Fund, an off balance sheet pension fund. Construction of this property commenced in August 2017. The Hampshire has been fully subscribed and net deposits from prospective purchasers are held in trust by Nunes, Scholefield, DeLeon & CO. (See Note 11).

All investment properties under construction are classified as level three in the fair value hierarchy (see Note 10).

At 31 December 2018, the Hampshire development was 67% completed with a projected completion date of June 2019. The cost of the project was in line with budgeted expenditure and is a true reflection of the value of the property as obtained in progress report prepared by Goldson Barrett Johnson – Chartered Quantity Surveyors and Construction Economists.

8 Intangible Assets

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
At 1 January	69,774	91,478
Additions	40,154	3,884
Amortization	(34,077)	(25,588)
At 31 December	75,851	69,774
At 31 December		
Cost	358,391	370,774
Accumulated amortization	(282,540)	(301,000)
Net book value	75,851	69,774

Other intangible assets with an original cost/purchase price totaling $202,008,000 (2017: $239,000,000) are still in use at reporting date but are fully amortized.

9 Investment in Subsidiaries

	The Company	
	2018	**2017**
	$'000	**$'000**
Guardian Life Pension Fund Limited		
50,000 ordinary shares at cost	50	50
Guardian Life Properties Limited		
20,000 ordinary shares at cost	20	20
	70	70

The above mentioned subsidiaries are dormant and have not traded since December 2009 and December 2014 respectively.

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10 Financial Assets

	The Group and The Company			
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	2018	**2018**	**2017**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Total financial assets	51,363,665	60,063,699	50,189,408	54,877,600
Financial assets measured at fair value through profit or loss (FVPL) (IAS 39)	-	-	27,526,995	27,526,995
Financial assets mandatorily measured at fair value through profit or loss (FVPL-M)	21,757,596	21,757,596	-	-
Financial assets measured at fair value through other comprehensive income (FVOCI)	7,555,133	7,555,133	-	-
Financial assets measured at amortised cost (AC)	22,050,936	30,750,970	25,327	25,327
Held to maturity financial assets (HTM)	-	-	22,637,086	27,325,278
Total financial assets	51,363,665	60,063,699	50,189,408	54,877,600

	The Group and The Company Carrying value		
	FVPL-M	**Amortised Cost**	**FVOCI**
	2018	**2018**	**2018**
	$'000	**$'000**	**$'000**
Equity securities:			
- Listed	8,465,614	-	-
- Unlisted	44,382	-	-
	8,509,996	-	-
Debt securities:			
- Government securities	11,732,580	22,218,107	7,442,263
- Debentures and corporate bonds	534,900	-	-
Loss allowance (Note 36(b))	-	(524,977)	-
	12,267,480	21,693,130	7,442,263
Deposits (more than 90 days)	777,076	-	-
Other	73,131	-	-
	850,207	-	-
	21,627,683	21,693,130	7,442,263
Interest receivable	129,913	357,806	112,870
	21,757,596	22,050,936	7,555,133
Current	906,989	1,819,236	112,870
Non-current	20,850,607	20,231,700	7,442,263
	21,757,596	22,050,936	7,555,133

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10 Financial Assets (Continued)

	The Group and The Company Carrying Value/Fair Value
	2017
	$'000
Financial assets at fair value through profit or loss	
Equity securities:	
- Listed	6,304,813
	6,304,813
Debt securities:	
- Government securities	19,603,868
- Corporate bonds	1,289,207
	20,893,075
Other	82,342
	82,342
	27,280,230
Interest receivable	246,765
	27,526,995
Current	283,539
Non-current	27,243,456
	27,526,995

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10 Financial Assets (Continued)

	The Group and The Company	
	Carrying Value	Fair Value
	2017	2017
	$'000	$'000
Held-to-maturity financial assets		
Debt securities:		
- Government securities	22,262,146	26,950,338
Interest receivable	374,940	374,940
	22,637,086	27,325,278
Current:	1,149,202	1,149,202
Non-current	21,487,884	26,176,076
	22,637,086	27,325,278

	Carrying Value
	2017
	$'000
Financial assets at amortised cost	
Government and Corporate securities	25,000
Interest receivable	327
	25,327
Current	327
Non-current	25,000
	25,327

Included in financial assets are the following securities:

(a) Government of Jamaica Benchmark Investment Notes with a face value of $284 million (2017- $100 million) of which $90 million (2017 - $90 million) has been pledged with the Financial Services Commission, in accordance with Section 8 (1) (a) of the Insurance Regulations 2001.

(b) Government of Barbados debenture with a face value of J$6.3 million or BBD$100,000 (2017 – J$6.2 million or BBD$100,000) which has been pledged with the Financial Services Commission of Barbados.

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10 Financial Assets (Continued)

The table below illustrates the movements in financial assets:

	The Group and the Company			
	Financial Assets at Fair Value through Profit or Loss	**Amortized Cost**	**Financial Assets at Fair Value through Other Comprehensive Income**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2018	27,280,230	22,287,146	-	49,567,376
Exchange differences	26,287	-	332,470	358,757
Additions	1,338,481	747,220	4,876,128	6,961,829
Disposals/maturities	(2,723,566)	(500)	(4,332,474)	(7,056,540)
Realized gains/(losses)	35,105	-	(290,935)	(255,830)
Fair value net gains/(losses)	2,432,266	-	(236,466)	2,195,800
Transfers within categories on adoption of IFRS 9 (Note 41)	(7,289,573)	(828,666)	8,118,239	-
Remeasurements - initial application of IFRS 9 (Note 41)	528,453	(592,122)	(1,024,699)	(1,088,368)
Net movement in impairment gains (Note 30)	-	80,052	-	80,052
At 31 December 2018	21,627,683	21,693,130	7,442,263	50,763,076

	Assets at Fair Value Through Profit or Loss	**Held to Maturity**	**Financial Assets at Amortised Cost**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2017	23,249,225	22,073,719	100,957	45,423,901
Exchange differences	(254,051)	(4,352)	(64)	(258,467)
Additions	2,600,322	2,585,912	-	5,186,234
Disposals/maturities	(508,961)	(2,393,133)	(75,893)	(2,977,987)
Fair value net gains	2,193,695	-	-	2,193,695
At 31 December 2017	27,280,230	22,262,146	25,000	49,567,376

10 Financial Assets (Continued)

The following table shows an analysis of assets recorded at fair value by level of fair value hierarchy:

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total Fair value**
	$'000	**$'000**	**$'000**	**$'000**
At 31 December 2018				
Assets measured at fair value:				
Freehold and leasehold properties (Note 5)	-	-	1,971,544	1,971,544
Investment properties (Note 6)	-	-	1,900,373	1,900,373
Property for development and sale (Note 7)	-	-	490,861	490,861
Financial assets at fair value through profit or loss:				
Equity securities (Note 10)	8,465,614	-	44,382	8,509,996
Debt securities (Note 10)	-	11,737,580	-	11,737,580
Debentures and Corporate Bonds (Note 10)	-	534,900	-	534,900
Deposits >90 days (Note 10)	-	777,076	-	777,076
Other (Note 10)	67,271	5,860	-	73,131
Financial assets at fair value through other comprehensive income:				
Debt securities (Note 10)	-	7,442,263	-	7,442,263
	8,532,885	20,497,679	4,407,160	33,437,724

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total Fair value**
	$'000	**$'000**	**$'000**	**$'000**
At 31 December 2017				
Assets measured at fair value:				
Freehold and leasehold properties (Note 5)	-	-	1,956,005	1,956,005
Investment properties (Note 6)	-	-	1,765,884	1,765,884
Property for development and sale (Note 7)	-	-	231,950	231,950
Financial assets at fair value through profit or loss:				
Equity securities (Note 10)	6,304,813	-	-	6,304,813
Debt securities (Note 10)	-	20,893,075	-	20,893,075
Other (Note 10)	68,318	14,024	-	82,342
	6,373,131	20,907,099	3,953,839	31,234,069

There were no transfers between Level 1 and Level 2 during the year.

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10 Financial Assets (Continued)

Reconciliation of movements in Level 3 assets measured at fair value

The following table shows a reconciliation of the opening and closing recorded amount of Level 3 assets and which are recorded at fair value.

Assets measured at fair value:

	The Group and the Company					
	At 1 January	Total gain on profit or loss	Revaluation surplus	Additions	Other movement	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2018						
Freehold and leasehold properties	1,956,005	-	37,289	11,438	(33,188)	1,971,544
Investment properties	1,765,884	129,233	-	5,256	-	1,900,373
Property for development and sale	231,950	-	-	258,911	-	490,861
Financial assets at Fair value through profit or loss – unquoted equities	-	-	-	44,382	-	44,382
	3,953,839	129,233	37,289	319,987	(33,188)	4,407,160

	The Group and the Company					
	At 1 January	Total gain on profit or loss	Revaluation surplus	Additions	Other movement	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2017						
Freehold and leasehold properties	1,938,488	-	34,352	15,886	(32,721)	1,956,005
Investment properties	1,283,529	102,447	-	474,908	(95,000)	1,765,884
Property for development and sale	-	-	-	136,950	95,000	231,950
	3,222,017	102,447	34,352	627,744	(32,721)	3,953,839

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10 Financial Assets (Continued)

Assets measured at fair value (continued)

Total gains or losses (realized and unrealized) for the year in the above table are presented in the consolidated statement of profit or loss and other comprehensive income as follows:

	The Group and the Company	
	2018	**2017**
	$'000	**$'000**
Total gains or losses recognized in statement of profit or loss		
Net fair value gains on investment properties	129,233	102,447

	2018	**2017**
	$'000	**$'000**
Total gains or losses recognized in statement of other comprehensive income		
Net fair value gains on freehold and leasehold properties through other comprehensive income	37,289	34,352

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11 Loans and Receivables

	The Group		The Company	
	Carrying Value 2018 $'000	**Carrying Value 2017 $'000**	**Carrying Value 2018 $'000**	**Carrying Value 2017 $'000**
Insurance receivables				
Premiums receivable	1,061,271	972,343	1,061,271	972,343
Less impairment provisions	(57,730)	(64,186)	(57,730)	(64,186)
Due from reinsurers	257,145	125,398	257,145	125,398
Less impairment provisions	(110)	-	(110)	-
Policy loans	318,793	341,301	318,793	341,301
Less impairment provisions	(174,961)	(162,127)	(174,961)	(162,127)
Commissions paid in advance	192,816	173,899	192,816	173,899
Agents advances	2,228	3,862	2,228	3,862
Less impairment provisions	(1,699)	(1,699)	(1,699)	(1,699)
	1,597,753	1,388,791	1,597,753	1,388,791
Other receivables				
Secured loan receivable (Note 11(b))	104,874	110,382	104,874	110,382
Less impairment provisions	(1,272)	-	(1,272)	-
Due from stockbrokers	-	711,580	-	711,580
Amounts held in trust (Note 11(a))	125,837	115,377	125,837	115,377
Other loans and receivables	559,270	373,956	559,220	373,906
Interest receivable	305	12,526	305	12,526
Due from related parties (Note 35)	-	42,582	-	42,582
	789,014	1,366,403	788,964	1,366,353
	2,386,767	2,755,194	2,386,717	2,755,144
Non-current	103,602	110,382	103,602	110,382
Current	2,283,165	2,644,812	2,283,115	2,644,762
	2,386,767	2,755,194	2,386,717	2,755,144

	The Group		The Company	
	Fair Value 2018 $'000	**Fair Value 2017 $'000**	**Fair Value 2018 $'000**	**Fair Value 2017 $'000**
Loans and receivables	2,382,187	2,756,302	2,382,137	2,756,252

(a) Amounts held in trust represent net deposits with Nunes, Scholefield, DeLeon & CO, on the property for development and sale, the Hampshire.

11 Loans and Receivables (Continued)

(b) Secured loan receivable

	The Group and the Company				
			Undiscounted cash flows 2018		
	Carrying Value $'000	Fair Value $'000	Two to Three years $'000	Four to Five years $'000	Total $'000
Principal	103,602	99,022	103,602	-	103,602
Interest	-	-	8,994	-	8,994
Total	103,602	99,022	112,596	-	112,596

			Undiscounted cash flows 2017		
	Carrying Value $'000	Fair Value $'000	Two to Three years $'000	Four to Five years $'000	Total $'000
Principal	110,382	111,490	24,662	85,720	110,382
Interest	-	-	8,266	4,887	13,153
Total	110,382	111,490	32,928	90,607	123,535

On 11 August 2016, an agreement for sale and purchase of the ordinary shares in Ocho Rios Beach Limited was signed by all minority shareholders for the acquisition, by the majority shareholder, Island International Limited. The Group's investment holding of 24,000 ordinary shares were sold at a price of US$37 per share to be paid over a five (5) year period at an interest rate of 4% per annum, with security in the form of a first legal mortgage on the property owned by Island International Limited.

Interest is payable in arrears in quarterly instalments on the last business day of March, June, September and December of each year. Principal repayments commenced September 2018 and are scheduled annually thereafter.

12 Cash and Cash Equivalents

	The Group and The Company	
	2018 $'000	2017 $'000
Cash and cash equivalents	4,360,127	2,864,916
Cash at bank and in hand	3,868,088	1,491,661
Short term deposits (90 days or less)	537,280	1,373,255
Less impairment provision (Note 36 (b) vii)	(53,492)	-
	4,351,876	2,864,916
Cash and cash equivalents in mutual funds	8,293	-
Less impairment provision	(42)	-
Net cash and cash equivalents in mutual funds	8,251	-
Net cash and cash equivalents	4,360,127	2,864,916

12 Cash and Cash Equivalents (Continued)

	2018 $'000	2017 $'000
At beginning of year	2,864,916	3,012,037
Net increase/(decrease) in cash used in cash and cash equivalents	1,474,658	(151,506)
Effective of exchange rates changes on cash and cash equivalents	20,553	4,385
At end of year	4,360,127	2,864,916

Included in short term deposits is:

J$6.4 million or BBD$100,000 (2017 - J$6.2 million or BBD$100,000) pledged with the Financial Services Commission of Barbados.

The Group and the Company enter into collateralized resale agreements which may result in credit exposure in the event that the issuer of the underlying security to the transaction is unable to fulfill its contractual obligations. Included in the total cash and cash equivalents are securities purchased under resale agreements in the amount of $325,862,000 (2017 - $961,822,000) regarded as cash equivalents for the purposes of the statement of cash flows.

The short-term deposit portfolio yielded an average return of 2.92% (2017: 4.97%).

13 Segregated Funds of Life Insurance Policyholders

(a) Assets of the segregated funds

The assets listed below, included in the financial statements in aggregate, are managed by the Group on behalf of certain life insurance policyholders under the Blue Chip Fund, the MChip Fund, Eagle Growth Fund, Mutual Growth Fund, Shelter Plus Fund, Guardian Universal Life Fund, Horizon Equity Fund, Guardian Equity Fund, Guardian Money Market Fund, Guardian Long-term Growth Fund, Guardian Stabilisation Fund and Guardian Foreign Currency Indexed Fund. The policyholders share all the rewards and risks of the performance of the funds and the assets have been segregated for determining the policyholders' interest in the funds.

	The Group and The Company	
	2018 $'000	2017 $'000
Investments –		
Government of Jamaica securities	6,721,095	6,017,760
Equity securities and unit trust	6,024,140	4,454,989
Short-term securities	488,765	362,582
Investment property	63,711	60,515
	13,297,711	10,895,846
Other assets	760,865	985,435
	14,058,576	11,881,281

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13 Segregated Funds of Life Insurance Policyholders (Continued)

(b) Income attributable to the segregated funds

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Net Investment Income	296,248	733,540
Net realized and fair value gains	1,679,028	1,589,978
Foreign exchange gains/(losses)	11,937	(18,854)
Other income	3,702	5,915
	1,990,915	2,310,579

14 Share Capital

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Authorized		
126,575,000 ordinary shares of no par value		
Issued and fully paid		
126,525,000 ordinary shares of no par value	126,525	126,525

15 Stock Option Reserve

The current status of options inclusive of bonus issues and stock options to date is as follows:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Balance at 1 January	54,243	93,413
Executive share option plan:		
- (lapses)/ value of services provided	(13,483)	(39,170)
Balance at 31 December	40,760	54,243

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15 Stock Option Reserve (Continued)

Performance Share Option Plan

The Group operates a Stock Option Plan for its Executives. A total of 33,890,023 shares have been allocated to this plan since inception inclusive of bonus issues and stock dividends. Increases were approved at the Annual Meeting in 1999, 2004 and in 2011.

The movement in the number of share options outstanding for the year is as follows:

	2018 Average Exercise Price TTD	2018 Options 000s	2017 Average Exercise Price TTD	2017 Options 000s
At beginning of year	$24.17	500	$22.48	1,435
Repurchase of vested options	-	-	$18.00	(803)
Lapsed	$27.73	(134)	$43.33	(132)
At end of year	$22.86	366	$24.17	500

The exercise price of the options granted up to 2008 is equal to the average market price of the shares on the three dealing days preceding the date of the grant. The exercise price of the options granted in 2011 is the greater of $18.00 and the adjusted reference price. The vesting period is 2 years. Options are exercisable starting two years from the grant date up to the eighth anniversary of the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

		Number of shares	
Expiry date	Exercise Price TTD	000s 2018	000s 2017
28 May 2018	$27.73	-	134
2 Apr 2019	$19.99	133	133
31 Mar 2020	$24.51	233	233
25 Sep 2021	$18.00	-	-
12 Apr 2022	$18.00	-	-
		366	500

The options outstanding under the performance share option plan will continue to be exercisable until the expiration dates.

As stated in note 2u (ii), Guardian Holdings Limited replaced its former Group performance share option plan with a Group cash-based long-term performance incentive plan. As part of the approach to effect the closure of the share-based plan, on 9 March 2017, the Guardian Holdings Limited Board of Directors approved the repurchase of certain options granted under the plan. The remaining options outstanding under the performance share option plan will continue to be exercisable until 31 March 2020.

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16 Reserves

	The Group and the Company				
	Special Investment Reserve	**Property Revaluation Reserve**	**Translation Reserve**	**Fair Value reserve**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2018	2,484,543	1,110,819	20,432	-	3,615,794
Impact on initial application of IFRS 9 (Note 41)	-	-	-	427,537	427,537
Balance at 1 January 2018 – restated	2,484,543	1,110,819	20,432	427,537	4,043,331
Other comprehensive income	-	27,967	(4,385)	(312,040)	(288,458)
Transfer from retained earnings	1,010,013	-	-	-	1,010,013
At 31 December 2018	3,494,556	1,138,786	16,047	115,497	4,764,886
At 1 January 2017	1,429,685	1,085,055	22,443	-	2,537,183
Other comprehensive income	-	25,764	(2,011)	-	23,753
Transfer from retained earnings	1,054,858	-	-	-	1,054,858
At 31 December 2017	2,484,543	1,110,819	20,432	-	3,615,794

The property revaluation reserve is used to record increases or decreases in the carrying amount of an item of property that has been revalued. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in equity under the heading of property revaluation reserve. However, the increase is recognized in the statement of profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in other comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the statement of profit or loss.

The translation reserve is used to record exchange differences arising from the branches, whose functional currency is different to the functional currency used in the financial statements. Differences in retranslating opening net assets for investment in the branches using the exchange rate at year end compared to the exchange rate at the beginning of the year are recognized in other comprehensive income and taken to the translation reserve. The difference between a branch's profit or loss for the year translated at the year-end exchange rate and the profit or loss for the year converted at the average rate for the year is recognized in other comprehensive income and taken to the translation reserve.

The special investment reserve represents a non-distributable reserve established under the provisions of the Insurance Regulations, 2001 (Note 2(o)).

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17 Insurance Contracts

(a) Composition is as follows:

	The Group and The Company	
	2018	2017
	$'000	$'000
By line of business –		
Ordinary life	3,235,029	5,541,314
Annuities	16,557,831	16,245,247
Group life, health and personal accident	205,750	224,043
	19,998,610	22,010,604
By insurance contract type –		
Long term insurance contracts:		
With fixed and guaranteed terms and without DPF	19,162,488	21,150,806
With fixed and guaranteed terms and with DPF	630,372	635,755
	19,792,860	21,786,561
Short term insurance contracts:	205,750	224,043
	19,998,610	22,010,604

	The Group and the Company			
	Ordinary Life	Annuities	Health and Personal Accident	Total
	2018	2018	2018	2018
	$'000	$'000	$'000	$'000
At 1 January	5,541,314	16,245,247	224,043	22,010,604
(Decrease)/increase in reserves for future policy benefits	(2,306,461)	312,584	(18,293)	(2,012,170)
Exchange rate adjustment	176	-	-	176
At 31 December	3,235,029	16,557,831	205,750	19,998,610

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17 Insurance Contracts (Continued)

(a) Composition is as follows: (continued)

	The Group and The Company			
	Ordinary Life	**Annuities**	**Group Life Health and Personal Accident**	**Total**
	2017 $'000	**2017 $'000**	**2017 $'000**	**2017 $'000**
At 1 January	6,526,439	14,983,630	200,251	21,710,320
(Decrease)/increase in reserves for future policy benefits	(985,086)	1,261,617	23,792	300,323
Exchange rate adjustment	(39)	-	-	(39)
At 31 December	5,541,314	16,245,247	224,043	22,010,604

(b) By insurance contract type -

	The Group and The Company			
	With Fixed and Guaranteed Terms and without DPF	**With Fixed and Guaranteed Terms and with DPF**	**Short Term Insurance Contracts (Group Life, Health and Personal Accident)**	**Total**
	2018 $'000	**2018 $'000**	**2018 $'000**	**2018 $'000**
At 1 January	21,150,806	635,755	224,043	22,010,604
Refinements and corrections	(548,880)	(1,868)	-	(550,748)
Change in mortality	(1,281,230)	9,363	-	(1,271,867)
Change in lapse rates	151,613	48,294	-	199,907
Change in interest rates	(2,070,329)	(14,389)	-	(2,084,718)
Change in expenses	36,295	(7,898)	-	28,397
Other assumptions changes	259,736	(24,679)	-	235,057
Changes due to the issuance of new policies	(177,077)	1,964	(18,293)	(193,406)
Foreign currency translation	6,162	-	-	6,162
Normal increase due to the passage of time	1,635,392	(16,170)	-	1,619,222
At 31 December	19,162,488	630,372	205,750	19,998,610

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17 Insurance Contracts (Continued)

(b) By insurance contract type – (continued)

	The Group and The Company			
	With Fixed and Guaranteed Terms and without DPF	With Fixed and Guaranteed Terms and with DPF	Short Term Insurance Contracts (Group Life, Health and Personal Accident)	Total
	2017 $'000	2017 $'000	2017 $'000	2017 $'000
At 1 January	20,874,959	635,110	200,251	21,710,320
Refinements and corrections	(218,969)	-	-	(218,969)
Change in mortality	83,488	(1,087)	-	82,401
Change in lapse rates	(255,660)	-	-	(255,660)
Change in interest rates	(1,106,715)	5,151	-	(1,101,564)
Change in expenses	476,855	6,407	-	483,262
Changes due to the issuance of new policies	(316,064)	(537)	23,792	(292,809)
Foreign currency translation	(6,126)	-	-	(6,126)
Normal increase due to the passage of time	1,619,038	(9,289)	-	1,609,749
At 31 December	21,150,806	635,755	224,043	22,010,604

18 Investment Contracts

	The Group and The Company			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Deposits administration funds	18,865,830	18,865,830	18,862,805	18,862,805

These represent funds managed by the Group and the Company on behalf of pension schemes.

Contributors to the deposit administration funds are paid a fixed annual rate of return in the first policy year, with the rate being revised on at least an annual basis thereafter. At the end of the year, there were 150 (2017 - 155) schemes of which 66 (2017 - 69) were actively contributing to the fund.

Deposit administration fund liabilities carry floating rates of interest and therefore the carrying amounts approximate their fair values.

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18 Investment Contracts (Continued)

The movements in the liabilities arising from investment contracts are summarized below:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
At beginning of year	18,862,805	17,755,422
Deposits received	1,727,164	1,676,481
Management fees	(30,432)	(27,702)
Withdrawals	(2,609,086)	(1,299,042)
Investment contract benefits	835,724	860,717
Net exchange differences	79,655	(103,071)
At end of year	18,865,830	18,862,805

Included in the deposit administration funds are:

(a) $1.4 billion (2017 - $1.37 billion) in respect of the Company's pension scheme; and

(b) $201 million (2017 - $178 million) in respect of the pension scheme of fellow subsidiary.

19 Other Policy Liabilities

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Claims payable	1,408,641	1,125,759
Deposits on premiums and premiums received in advance	497,650	436,908
Dividends on deposit	11,697	11,682
	1,917,988	1,574,349

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20 Deferred Taxation

The following amounts are shown in the statement of financial position:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Deferred tax liabilities		
- Crystallizing in less than 12 months	70,661	133,076
- Crystallizing after more than 12 months	1,189,854	682,219
	1,260,515	815,295

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

At 1 January	815,295	748,598
Charge for the year [Note 32(a)]	221,272	58,109
IFRS 9 initial application adjustments (Note 41)	282,862	-
Deferred tax charge on FVOCI securities	(60,001)	-
Exchange rate adjustments	(8,235)	-
Tax charged to equity in respect of revaluation of properties [Note 32(c)]	9,322	8,588
At 31 December	1,260,515	815,295

The movement in the net deferred tax assets and liabilities during the year is attributable to the following items:

	The Group and The Company				
	Balance December 2017	**Changes on initial application of IFRS 9**	**Charge for the Year**	**Revaluation of Properties**	**Balance December 2018**
	$'000		**$'000**	**$'000**	**$'000**
Future distributions	130,518	-	(40,621)	-	89,897
Accelerated tax depreciation	238,685	-	(1,851)	-	236,834
Investments at fair value through profit or loss	195,023	91,017	263,177	-	549,217
Investments at fair value through OCI	-	123,448	728	-	124,176
Allowance for expected credit losses	-	161	(161)	-	-
Revaluation of properties	251,069	-	-	9,322	260,391
	815,295	214,626	221,272	9,322	1,260,515

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20 Deferred Taxation (Continued)

	The Group and The Company			
	Balance December 2016	Charge for the Year	Revaluation of Properties	Balance December 2017
	$'000	$'000	$'000	$'000
Future distributions	125,532	4,986	-	130,518
Accelerated tax depreciation	118,380	120,305	-	238,685
Investments at fair value through profit or loss	262,205	(67,182)	-	195,023
Revaluation of properties	242,481	-	8,588	251,069
	748,598	58,109	8,588	815,295

21 Other Liabilities

	The Group and The Company	
	2018	2017
	$'000	$'000
Due to related parties (Note 35)	4,471	3,692
Amount due to reinsurers	190,646	93,992
Amounts held in trust	320,894	159,491
Sundry payables	1,684,908	1,478,565
	2,200,919	1,735,740

All amounts due to related parties are unsecured, non-interest bearing and are without fixed repayment terms. Amounts held in trust represent net deposits on the property for development and sale, the Hampshire.

22 Net Premium Income

(a) Insurance premium income

	The Group and The Company	
	2018	2017
	$'000	$'000
By line of business –		
Ordinary life - first year	793,780	723,085
Ordinary life – renewal	4,668,826	4,313,556
Annuities	1,077,900	558,161
Group life	901,347	788,591
Health	5,700,527	5,463,362
	13,142,380	11,846,755
By insurance type -		
Long-term insurance contracts with fixed and guaranteed terms	6,540,506	5,594,802
Short-term insurance contracts	6,601,874	6,251,953
	13,142,380	11,846,755

22 Net Premium Income (Continued)

(b) Insurance premium ceded to reinsurers

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
By line of business –		
Ordinary life	308,652	209,342
Group life	113,427	108,370
Health	108,022	104,460
	530,101	422,172
By insurance type -		
Long-term reinsurance contracts	308,652	209,342
Short-term reinsurance contracts	221,449	212,830
	530,101	422,172

23 Policy Acquisition Expenses

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Commissions	1,520,968	1,338,992
Other expenses for the acquisition of insurance and investment contracts	516,530	438,701
	2,037,498	1,777,693

24 Net Insurance Benefits and Claims

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
By insurance benefit type –		
Death claims	1,162,481	851,899
Maturities	71,581	65,239
Surrendered policies and bonus additions	438,114	421,871
Annuities	1,133,294	1,029,390
Health	4,613,913	4,451,690
Disability	11,523	15,942
Living benefits	132,659	115,868
	7,563,565	6,951,899

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24 Net Insurance Benefits and Claims (Continued)

	The Group and the Company					
	2018			2017		
	Gross $'000	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Insurance benefits						
Long-term insurance contracts with fixed and guaranteed terms and without DPF:						
- death, maturity and surrender benefits	2,535,315	(32,412)	2,502,903	2,285,805	(97,272)	2,188,533
Long-term insurance contracts with fixed and guaranteed terms and with DPF:						
- death, maturity and surrender benefits	36,096	-	36,096	35,470	-	35,470
Short term insurance contracts	5,176,463	(151,897)	5,024,566	4,755,295	(27,399)	4,727,896
Total net insurance benefits and claims	7,747,874	(184,309)	7,563,565	7,076,570	(124,671)	6,951,899

25 Investment Income

	The Group and The Company	
	2018 $'000	**2017 $'000**
Fair value through profit or loss assets - interest income	1,118,527	1,363,209
Fair value through other comprehensive income - interest income	265,747	-
Fair value through profit or loss assets - dividend income	163,854	124,389
Amortised Cost/Held-to-maturity assets - interest income	2,256,571	2,421,447
Loans and receivables - interest income	31,479	42,848
Cash and cash equivalents - interest income	46,606	68,428
	3,882,784	4,020,321
Less: Investment expenses	(114,490)	(127,593)
	3,768,294	3,892,728

26 Net fair value gains on financial assets at fair value through profit of loss and investment properties

	The Group and The Company	
	2018 $'000	**2017 $'000**
Equity securities	1,806,495	1,810,459
Fixed income securities	625,771	383,236
Fair value gains on investment properties (Note 6)	129,233	102,447
	2,561,499	2,296,142

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27 Realized gains (losses) on financial assets

(a) Net realized fair value losses on de-recognition of financial assets measured at fair value through other comprehensive income

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Investment securities measured at fair value through other comprehensive income	(40,524)	-

During the period, the Group obtained the restructured instruments from the Government of Barbados. As a result of this, the Group incurred a net loss of $41M on the de-recognition of old instruments and recognition of new instruments.

(b) Net realized fair value gains on other financial assets

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Net realized gains on financial assets:		
- at fair value through profit or loss (IAS 39)	-	20,920
- mandatorily at fair value through profit or loss	35,105	-
	35,105	20,920

28 Fee Income

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Policy administration and asset management services:		
Insurance contracts	40,142	30,467
Investment contracts without a discretionary participation feature	489,642	496,481
Surrender charges – insurance contracts	64,347	59,305
Service charges	12,686	11,659
Other	17,445	7,167
	624,262	605,079

Included in fee income is $567,675,000 (2017: $567,445,000) relating to revenue from contracts with customers as per IFRS 15.

29 Other Income

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Rental income	31,032	36,290
Other income	6,698	12,593
	37,730	48,883

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30 Net impairment gains/ (losses) on financial assets

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Investment securities measured at fair value through other comprehensive income	(114,836)	-
Investment securities measured at amortized cost	80,052	-
Loans and receivables (Note 36)	(25,708)	-
Cash and cash equivalents	70,175	-
	9,683	-

31 Operating Expenses

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Staff cost (see below)	1,937,629	1,745,852
Depreciation and amortization (Notes 5, 8)	216,693	196,794
Auditors' remuneration	28,902	25,279
Directors' fees	13,525	13,256
Asset tax	40,484	36,069
Other expenses	995,513	951,312
	3,232,746	2,968,562

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Staff cost includes:		
Wages, salaries and bonuses	1,644,207	1,426,763
Health and medical	54,298	48,600
Staff training	12,142	9,413
National insurance	97,101	93,376
Share option scheme – value of services provided	10,641	-
Long-term incentive plan	-	7,914
Pension costs	74,138	66,721
Termination benefits	6,452	50,331
Other	38,650	42,734
	1,937,629	1,745,852

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32 Taxation

(a) Taxation is computed as follows:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Current:		
Income tax at 25%	971,213	814,554
Deferred income tax (Note 20)	221,272	58,109
	1,192,485	872,663

(b) Reconciliation of applicable tax charge to effective tax charge for net profit:

	The Group and the Company	
	2018	**2017**
	$'000	**$'000**
Profit before tax	8,069,693	5,252,340
Tax calculated at 25%	2,017,423	1,313,085
Income not subject to tax	(1,134,836)	(600,793)
Deductible expenses	153,129	168,582
Tax relief and deductions	(64,503)	(49,898)
Net effect of other charges and allowance	221,272	(58,109
Tax charge for the year	1,192,485	872,663

(c) Income tax effect related to other comprehensive income:

	The Group and The Company					
	2018			2017		
	Before tax amount	Tax expense	Net of tax amount	Before tax amount	Tax expense	Net of tax amount
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Losses on fair value through other comprehensive securities – not subject to tax	(136,422)	-	(136,422)	-	-	-
Losses on fair value through other comprehensive securities – subject to tax	(240,004)	60,001	(180,003)	-	-	-
Gains on property revaluation	37,289	(9,322)	27,967	34,352	(8,588)	25,764
Total	(339,137)	50,679	(288,458)	34,352	(8,588)	25,764

33 Dividends

	The Group and The Company	
	2018 $'000	2017 $'000
Dividends declared and paid during the year:		
First interim dividend for 2018 - $5.35 per share (2017 - $4.12 per share)	677,000	520,689
Second interim dividend for 2018 - $2.49 per share (2017 - $5.14 per share)	314,885	650,955
Third interim dividend for 2017 - $4.04 per share	-	314,700
Final dividend for 2017 - $4.09 per share	511,334	-
	1,503,219	1,486,344

34 Adjustment for Non-Cash Items in Operating Profit

	The Group		The Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Depreciation (Note 5)	182,616	171,206	182,616	171,206
Amortization of intangible assets (Note 8)	34,077	25,588	34,077	25,588
Net fair value gains on financial and other assets	(2,432,266)	(2,193,695)	(2,432,266)	(2,193,695)
Net losses on derecognition of financial assets measured at fair value through other comprehensive income (Note 27(a))	40,524	-	40,524	-
Net realized gains on financial assets (Note 27(b))	(35,105)	-	(35,105)	-
Net impairment gain on financial assets (Note 30)	(9,683)	-	(9,683)	-
Change in fair value of investment properties (Note 27(a))	(129,233)	(102,447)	(129,233)	(102,447)
Net movement in impairment of cash and cash equivalents	(115,714)	-	(115,714)	-
Gain on disposal of property and equipment	(3,228)	(283)	(3,228)	(283)
Unrealized foreign exchange (gains)/losses	(354,380)	243,276	(354,380)	243,276
	(2,822,392)	(1,856,355)	(2,822,392)	(1,856,355)

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35 Related Party Disclosures

Details of significant transactions carried out during the year with related parties are, as follows:

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Technical fees, computer lease rentals and rebranding fees paid to fellow subsidiary	(136,101)	(130,190)
Management fees earned from fellow subsidiaries	17,466	14,125
Approved deposit administration fund of fellow subsidiary -		
Contributions (net)	22,503	21,332
Refunds	(9,670)	(25,337)
Interest credited	10,107	9,198
Due to related parties (Note 21)	(4,471)	(3,692)
Due from related parties (Note 11)	-	42,582
Lease income - subsidiary	2,074	2,272
Key management compensation		
Salaries and other short-term benefits	506,577	338,619
Long-Term Incentive	10,641	7,914
Post-employment benefits	18,703	15,242
	535,921	361,775

	The Group and the Company	
	2018	**2017**
	$'000	**$'000**
Balances with Associates		
Bank deposits	345,269	601,321
Investments		
Repurchase agreements	-	360,155
Fixed deposits	2,625	2,634
Bonds	499,777	290,110
Equities	2,813,701	2,066,437
Due from stockbroker	-	503,195
	3,316,103	3,222,531
Interest and dividends income	51,202	48,735
Other charges	23,337	26,030

The related party balances on the consolidated statement of financial position are due within 12 months and their carrying value approximate to fair value.

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36 Management of Insurance and Financial Risk

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarizes these risks and the way the Group manages them.

a. Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty that the Group will have sufficient assets to satisfy the benefits payable under the contract. 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 Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the 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. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Long term insurance contracts

(i) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

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36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

(i) Frequency and severity of claims (continued)

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with discretionary participation features ("DPF"), the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party.

The Group charges for mortality risk on a monthly basis for all insurance contracts. For long term contracts without fixed and guaranteed terms, it has the right to alter these charges based on its 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 Group manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Group balances death risk and survival risk across its portfolio. Medical selection is also included in the Group's underwriting procedures, with premiums varied to reflect the health condition and family medical history of the applicants. The Group has a group-wide retention limit of $25,000,000 on any single life insured.

The Group reinsures the excess of the insured benefit over $25,000,000 for standard risks (from a medical point of view) under an excess of loss reinsurance arrangement. The Group does not have in place any reinsurance for contracts that insure survival risk.

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Group. As was the case in the previous year, the risk is concentrated at the lower value bands. (These tables do not include annuity contracts, for which a separate analysis is reported in this note.)

	The Group and The Company			
	2018			
	Total Benefits Insured			
Benefits assured per life	Before reinsurance		After reinsurance	
$'000	**$'000**	**%**	**$'000**	**%**
1,000 - 5,000	248,145,289	84	240,990,956	89
5,001 - 10,000	27,553,580	9	20,229,009	8
10,001 - 15,000	6,640,392	2	3,183,139	1
15,001 - 20,000	4,651,779	2	1,714,465	1
20,001 and over	9,523,367	3	2,021,017	1
Total	296,514,407	100	268,138,586	100

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36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

(i) Frequency and severity of claims (continued)

	The Group and The Company			
	2017			
	Total Benefits Insured			
Benefits assured per life	Before reinsurance		After reinsurance	
$'000	**$'000**	**%**	**$'000**	**%**
1,000 - 5,000	233,118,405	85	232,141,949	90
5,001 - 10,000	24,241,201	9	20,179,575	8
10,001 - 15,000	5,724,720	2	2,956,322	1
15,001 - 20,000	3,924,522	1	1,412,322	0.5
20,001 and over	7,450,039	3	1,435,645	0.5
Total	274,458,887	100	258,125,813	100

The following table for annuity insurance contracts illustrates the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity was in payment at the year end. The greatest risk concentration remains at the highest band, which is consistent with the prior year. The Group does not hold any reinsurance contracts against the liabilities carried for these contracts.

	The Group and The Company			
	Total Annuities Payable Per Annum			
Annuities payable per annum per life	2018		2017	
$'000	**$'000**	**%**	**$'000**	**%**
0 - 200,000	1,832,154	28	1,670,857	29
200,001 - 300,000	654,793	10	562,718	10
300,001 - 400,000	573,214	9	503,993	9
400,001 - 500,000	424,431	6	354,960	6
More than 500,000	3,134,456	47	2,640,864	46
Total	6,619,048	100	5,733,392	100

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to contract holder behaviour. On the assumption that contract holders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that contract holders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those contract holders remaining in good health. The Group has factored the impact of contract holders behaviour into the assumptions used to measure these liabilities.

36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

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

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 contract holder behaviour.

The Group uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the Group is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the Group's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies. The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates.

An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

(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. However, changes in assumptions for expense rates, lapse rates and investment returns have decreased the insurance liability by $1,841,261,246 (2017 – decreased by $618,302,843).

For long-term insurance contracts, estimates are made in two stages. At inception of the contract, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities. A margin for risk and uncertainty is added to these assumptions. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. If the liabilities are not adequate, the assumptions are altered to reflect the latest current estimates, together with the provision for adverse deviation.

Assumptions are considered to be 'best estimate' if, on average, the results are expected to be worse than the assumptions in 50% of possible scenarios and better in the other 50%.

The nature and method of determining the significant assumptions made by the Group in the computation of policyholders' liabilities are described in the following paragraphs. In all cases, the assumptions are supplemented by the use of margins for adverse deviation.

36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

(iii) Process used in deriving assumptions (continued)

Mortality
An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into the Group's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Policy claims and benefits
Estimates of the amounts and timings of future claims and benefit payments are based on both Company and industry experience over extended periods. Although the pattern of claims and benefit payments may be close to that indicated by past experience some deviation in that pattern is probable.

Investment income
The computation of policyholders' liabilities takes into account projected net investment income on assets supporting policyholders' liabilities and income expected to be earned or foregone on reinvestment or financing of mismatched cash flows. Uncertainties exist with respect to the projection of interest rates and the magnitude of credit losses from asset defaults. The Company accounts for such uncertainties by incorporating provisions for credit losses into projections of investment income in addition to the allowances for depreciation in the carrying values of invested assets.

Policy maintenance expenses
Amounts are included in policyholders' liabilities to provide for the costs of administering policies in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy statements and related indirect expenses and overheads. The process of forecasting expenses requires estimates to be made of such factors as the rate of salary increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's experience.

Policyholder dividends
Policyholders' liabilities include the present value of estimated amounts of future policyholder dividends based on current dividend scales and expected future income attributable to participating policies.

Margin for adverse deviation
In calculating the policyholders' liabilities, a margin of 20% for acquired business and 25% for the Company's policies, consistent with the prior year, has been applied to the policy lapse rate assumptions as a margin for adverse deviation. For lapse-supported policies, a decrease in ultimate lapse rates would increase policyholders' liabilities and for non-lapse supported policies an increase in ultimate lapse rates would increase policyholders' liabilities.

36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

(iv) Changes in assumptions

	The Group and The Company	
	2018	**2017**
	$'000	**$'000**
Determination of liabilities		
Changes in expense assumptions	28,397	483,262
Changes in interest rates	(2,084,718)	(1,101,564)
Other assumptions	915,397	(173,259)

(v) Sensitivity analysis

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The analyses are based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Long-term insurance contracts with fixed and guaranteed terms and without DPF:

	The Group and The Company			
	Change in Variable 2018	**Change in Liability 2018**	**Change in Variable 2017**	**Change in Liability 2017**
Variable		**$'000**		**$'000**
Worsening of mortality	10.00%	988,260	10.00%	1,195,318
Lowering of investment returns	-2.00%	5,061,381	-2.00%	5,681,254
Worsening of base renewal expense level	5.00%	622,651	5.00%	585,369
Worsening of expense inflation rate	1.00%	1,733,462	1.00%	1,667,706

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36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Long-term insurance contracts (continued)

(v) Sensitivity analysis (continued)

Long-term insurance contracts with fixed and guaranteed terms and with DPF (continued):

	The Group and The Company			
	Change in Variable 2018	**Change in Liability 2018**	**Change in Variable 2017**	**Change in Liability 2017**
Variable		**$'000**		**$'000**
Worsening of mortality	10.00%	2,700	10.00%	1,303
Lowering of investment returns	-2.00%	138,106	-2.00%	30,791
Worsening of basis renewal expense level	5.00%	12,456	5.00%	9,968
Worsening of expense inflation	1.00%	27,489	1.00%	17,920

Sensitivity analysis for financial risks is presented in (Note 36(b)), together with the assets backing the associated liabilities of the contracts.

(vi) Guaranteed annuity options

The amount of insurance risk under contracts with guaranteed annuity options is also dependent on the number of contract holders who will exercise their option ('option take-up rate'). This will depend significantly on the investment conditions that apply when the options can be exercised. The lower the current market interest rates in relation to the rates implicit in the guaranteed annuity rates, the more likely it is that contract holders will exercise their options. Continuing improvements in longevity reflected in current annuity rates will increase the likelihood of contract holders exercising their options as well as increasing the level of insurance risk borne by the Group under the annuities issued.

The following table indicates the likely changes in the carrying amount of the liability at year-end in response to changes in interest and mortality rates. The additional carrying amount is calculated on the assumption that every contract holder exercises his option at the earliest date possible.

	The Group and The Company			
Interest rate	**Current less 1%**	**Current less 1%**	**Current plus 2%**	**Current plus 2%**
Mortality rate	**Current**	**Current less 10%**	**Current**	**Current less 10%**
Additional Insurance Liability ($'000)				
2018	841,040	1,270,634	(1,361,889)	(932,295)
2017	861,873	1,319,859	(1,381,048)	(923,061)

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36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Short-duration life insurance contracts

(i) Frequency and severity of claims

Short-duration life insurance contracts are contracts which are typically of a short tenure with the tenure being often determined by the length of an individual's time in employment. These contracts are mainly issued to employers to insure their commitments to their employees. The risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry.

The Group attempts to manage this risk through its underwriting and claims handling. Additionally, there is re-insurance on short-duration life insurance contracts. There is also a concentration of risk in the services sector.

The following table, which analyses at the year-end the aggregated insured benefits for short-duration life insurance contracts by industry sector, indicates the insurance risk concentration by industry for these contracts. The concentration is substantially unchanged from prior year.

	The Group and The Company			
	2018		2017	
	Mortality Risk $'000	Risk %	Mortality Risk $'000	Risk %
Industry sector				
Employees of varying industries	268,111,541	93	278,324,172	96
Debtors of banks, trust companies, finance companies, credit unions etc.	10,954,644	4	1,471,670	1
Members of unions, associations etc.	9,792,975	3	8,637,875	3
Total	288,859,160	100	288,433,717	100

(ii) Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration. However, for incurred disability income claims, it is necessary to estimate the rates of recovery from disability for future years. Standard recovery tables produced by re-insurers are used as well as the actual experience of the Group. The influence of economic circumstances on the actual recovery rate for individual contracts is the key source of uncertainty for these estimates.

(iii) Process used in deriving assumptions

The assumptions for short-duration life contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

The process to derive the assumptions for short-duration life contracts is similar to long-term insurance contracts. However, the short-term nature of the mortality risk underwritten makes the Group's estimate of the liability covering death benefit payments less uncertain than in the case of long-term contracts. For disability income claims the Group uses similar statistical methods used for casualty risks that incorporate the various assumptions made in order to estimate the ultimate cost of claims.

36 Management of Insurance and Financial Risk (Continued)

a. Insurance risk (continued)

Short-duration life insurance contracts (continued)

(iii) Process used in deriving assumptions (continued)

The two methods more commonly used are the Factor and the Bornhuetter-Ferguson methods for Group Life and Health contracts, respectively.

The Factor method is generally used for reserves which are estimated due to a short lag or run off period. The reserves are often estimated as a percentage of premiums. The normal percentage for group life insurance may fall between 7% to 10% of the annual premium in force at the valuation date. The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for individual accident years or groups of accident years.

(iv) Sensitivity analysis

The analysis in the following table is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, changes in lapses and future mortality.

	Change in Variable	Change in Liability	
		2018	2017
Variable	**%**	**$'000**	**$'000**
Worsening of mortality	10	8,756	8,448

b. Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities (particularly relating to investment contracts), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For the segregated fund liabilities, a separate portfolio of assets is maintained and the Company bears no risk with respect to these liabilities. For the insurance contracts and the other investment contracts, no separate portfolio of investments is maintained. The Group has not substantially changed the processes used to manage its risks from previous periods.

The following tables reconcile the statement of financial position to the classes and portfolios used in the ALM framework:

	2018							
	Long Term Insurance Contracts with Fixed and Guaranteed Terms			Investment Contracts				
	Without DPF $'000	With DPF $'000	Short Term Insurance Contracts $'000	Approved Deposit Administration Funds $'000	Unit Linked Contracts $'000	Other Liabilities $'000	Corporate $'000	Total $'000
Assets								
Property and equipment	-	-	-	-	-	-	2,552,138	2,552,138
Investment properties	-	-	-	-	-	-	1,900,373	1,900,373
Property for development and sale	-	-	-	490,861	-	-	-	490,861
Intangible assets	-	-	-	-	-	-	75,851	75,851
Taxation recoverable	-	-	-	563,560	-	257,343	175,250	996,153
Financial assets	21,202,177	490,952	-	16,446,912	-	595,266	12,628,358	51,363,665
Loans and receivables	8,984	134,847	-	147	-	-	2,242,789	2,386,767
Cash and cash equivalents	2,723	4,573	205,750	1,364,350	-	2,719,105	55,375	4,351,876
Cash and cash equivalents of mutual fund holders	-	-	-	-	-	-	8,251	8,251
	21,213,884	630,372	205,750	18,865,830	-	3,571,714	19,638,385	64,125,935
Segregated funds' assets	-	-	-	-	14,058,576	-	-	14,058,576
Total	21,213,884	630,372	205,750	18,865,830	14,058,576	3,571,714	19,638,385	78,184,511

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

	2017							
	Long Term Insurance Contracts with Fixed and Guaranteed Terms			Investment Contracts				
	Without DPF $'000	With DPF $'000	Short Term Insurance Contracts $'000	Approved Deposit Administration Funds $'000	Unit Linked Contracts $'000	Other Liabilities $'000	Corporate $'000	Total $'000
Assets								
Property and equipment	-	-	-	-	-	-	2,503,749	2,503,749
Investment properties	-	-	-	-	-	-	1,765,884	1,765,884
Property for development and sale	-	-	-	231,950	-	-	-	231,950
Intangible assets	-	-	-	-	-	-	69,774	69,774
Taxation recoverable	-	-	-	436,401	-	233,650	271,333	941,384
Financial assets	21,107,770	502,439	-	17,939,933	-	508,828	10,130,438	50,189,408
Loans and receivables	8,852	95,594	-	115,376	-	1,230,755	1,304,617	2,755,194
Cash and cash equivalents	34,184	37,722	224,043	139,145	-	2,427,186	2,636	2,864,916
	21,150,806	635,755	224,043	18,862,805	-	4,400,419	16,048,431	61,322,259
Segregated funds' assets	-	-	-	-	11,881,281	-	-	11,881,281
Total	21,150,806	635,755	224,043	18,862,805	11,881,281	4,400,419	16,048,431	73,203,540

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(i) Long-term insurance contracts with fixed and guaranteed terms and without DPF

Long term insurance contracts with fixed and guaranteed terms and without DPF contain financial components which are an amalgamation of segregated and non-segregated assets. The supplemental benefits payable to holders of segregated funds contracts are based on historic and current rates of return on the fixed income securities in which the fund is invested, as well as the Group's expectations of future investment returns. The benefit on the non-segregated assets is usually a guaranteed fixed interest rate. This rate may apply to maturity and/or death benefits.

All these contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For all these contracts, the Group is not required to measure this embedded derivative at fair value. This surrender value is always lower than the carrying amount of the contract liabilities as a result of the application of surrender penalties set out in the contracts. The range of such penalties is between 0% and 6% of the carrying amount of equity contracts, and between J$150 and 50% of the Basic Annual Premiums of insurance contracts. These penalties mitigate the expense incurred from de-recognizing the associated deferred acquisition costs (DAC) assets.

The impact on the Group's current year results if all the contracts with this option were surrendered at the financial year-end, net of surrender penalty charges and DAC write-off, would have been a loss of $26B (2017 – $22B) attributable to the equity and cash surrender value components.

The measurement of the liabilities under long-term insurance contracts and investment contracts with DPF is similar to that of insurance contracts with guaranteed and fixed terms without DPF. The Group only bears financial risk in relation to the guaranteed benefits payable under the non-segregated contracts and the investment portion of the segregated contracts.

Arising from the adoption of IFRS 9 on 1 January 2018, the business model used resulted in the assets allocated to Long–term insurance contracts with fixed and guaranteed terms and without DPF, exceeding liabilities as at 31 December 2018.

The following tables indicate the estimated amount and timing of undiscounted cash flows arising from the liabilities in this category of the Group's ALM framework. They summarize the Group's exposure to interest rate risks for these assets and liabilities. When debt securities mature, the proceeds not needed to meet liability cash flows will be re-invested in floating rate securities, and the interest rate swaps are used to secure fixed interest rate cash flows. The reinvestment of these net positive proceeds in the earlier years will fund the negative cash flows displayed in the table below for the later years.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(i) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

	The Group and The Company 2018 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Financial assets	21,202,177	-	1,582,452	9,472,208	39,079,006	-	50,133,666
Loans and receivables	8,984	-	-	-	-	8,984	8,984
Cash and cash equivalents	2,723	2,723	-	-	-	-	2,723
Total	21,213,884	2,723	1,582,452	9,472,208	39,079,006	8,984	50,145,373
	Undiscounted Cash Flows						
Liabilities							
Long-term Insurance contracts with fixed and guaranteed terms	19,162,488	-	170,070	1,325,754	7,280,811	104,135,188	112,911,823
Net Liquidity Gap	2,051,396	2,723	1,412,382	8,146,454	31,798,195	(104,126,204)	(62,766,450)
Cumulative Liquidity Gap	2,051,396	2,723	1,415,105	9,561,559	41,359,754	(62,766,450)	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(i) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

	The Group and The Company 2017 Undiscounted Cash Flows						
	Carrying Amount $'000	**On Demand $'000**	**Less Than One Year $'000**	**One to Five Years $'000**	**Over Five Years $'000**	**No Maturity Date $'000**	**Total $'000**
			Contractual Cash Flows				
Assets							
Financial assets	21,107,770	-	1,687,193	8,748,074	40,720,986	-	51,156,253
Loans and receivables	8,852	-	-	-	-	8,852	8,852
Cash and cash equivalents	34,184	34,184	-	-	-	-	34,184
Total	21,150,806	34,184	1,687,193	8,748,074	40,720,986	8,852	51,199,289
			Undiscounted Cash Flows				
Liabilities							
Long-term Insurance contracts with fixed and guaranteed terms	21,150,806	-	495,471	1,325,694	4,590,389	101,606,981	108,018,535
Net Liquidity Gap		34,184	1,191,722	7,422,380	36,130,597	(101,598,129)	(56,819,246)
Cumulative Liquidity Gap		34,184	1,225,906	8,648,286	44,778,883	(56,819,246)	-

Sensitivity analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in interest rates will not cause a change to the amount of the liability. Investment contracts with fixed and guaranteed terms and debt securities held to maturity are accounted for at amortized cost and their carrying amounts are not sensitive to changes in the level of interest rates.

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(i) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

Sensitivity analysis – interest rate risk (continued)

Financial assets described in this note are classified under amortized cost as per International Financial Reporting Standards (IFRS 9) and as such are not subject to interest rate risk. On a comparative International Accounting Standards (IAS 39) basis, management monitored the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements in all yield curves.

An increase or decrease of 200 basis points in interest yields would not result in a gain or loss for the year. For 2017, an increase of 200 basis points in interest yields would result in a loss for the period of $3,741,000. A similar decrease in interest yields would result in a profit for the period $3,741,000.

Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to movements in the various stock exchange indexes with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

The equity securities described in this note are classified as financial assets at fair value through profit or loss. An increase of 10% in the share prices of stocks held by the Group would result in no gain or loss for current year as no equities were allocated to the portfolio. A similar decrease in the share prices of stocks held by the Group would result in no profit or loss for the period.

(ii) Long-term insurance contracts with fixed and guaranteed terms and with DPF

Insurance and investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

The Group issues insurance contracts which participate in the profits earned via the payment of dividends. The declaration of these dividends is at the discretion of the Group and the Group therefore bears no financial risk on this portion of the liability.

The Group manages the exposure to interest rate risks by using natural hedges that match interest sensitive assets with liabilities of a similar nature. The interest rate risk gap analysis above shows the matching of these assets and liabilities according to the earlier of contractual re-pricing or maturity.

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ii) Long-term insurance contracts with fixed and guaranteed terms and with DPF (continued)

Some of the long-term insurance contracts with fixed and guaranteed terms can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. The Group is not required to, and does not, measure this embedded derivative at fair value. This surrender value is always lower than the carrying amount of the insurance and investment liabilities as a result of the application of surrender penalties set out in the contracts.

The measurement of the liabilities under long-term insurance contracts and investment contracts with DPF is similar to that of insurance contracts with guaranteed and fixed terms without DPF. However, the impact of interest rate risk is different due to the presence of the DPF. The Group only bears financial risk in relation to the guaranteed benefits payable under these contracts. These guaranteed benefits increase as supplemental benefits are declared and distributed to contract holders. While the Group recognizes as a liability 90% of the excess of the carrying value of the underlying assets over the carrying value of the guaranteed liabilities, the Group does not bear any interest rate risk in relation to this DPF component liability.

Financial assets backing the guaranteed element of investment and insurance contracts with DPF amount to $1,126,000,000 (2017 – $943,375,000). These assets are included in the table below to match expected cash flows from the guaranteed components of insurance and investment contract liabilities. Similarly to the approach used for the fixed and guaranteed portfolio, fixed rate securities are used to secure fixed interest rate cash flows. On maturity of debt securities, the proceeds not needed to meet liability cash flows will be re-invested in floating rate securities and other investment securities.

The re-investment of these net positive proceeds in the earlier years will fund the negative cash flows displayed in the table below for the later years.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ii) Long-term insurance contracts with fixed and guaranteed terms and with DPF (continued)

	The Group and The Company 2018 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
		Contractual Cash Flows					
Assets							
Financial assets	490,952	-	-	223,742	815,678	-	1,039,420
Loans and receivables	134,847	-	-	-	-	134,847	134,847
Cash and cash equivalents	4,573	4,573	-	-	-	-	4,573
Total	630,372	4,573	-	223,742	815,678	134,847	1,178,840
		Undiscounted Cash Flows					
Liabilities							
Long-term insurance fixed contracts with and guaranteed terms and without DPF	630,372	-	1,717	15,123	31,774	1,077,829	1,126,443
Net Liquidity Gap		4,573	(1,717)	208,619	783,904	(942,982)	52,397
Cumulative Liquidity Gap		4,573	2,856	211,475	995,379	52,397	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ii) Long-term insurance contracts with fixed and guaranteed terms and with DPF (continued)

	The Group and The Company						
	2017						
	Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
		Contractual Cash Flows					
Assets							
Financial assets	502,439	-	44,748	178,994	860,427	-	1,084,169
Loans and receivables	95,594	-	-	-	-	95,594	95,594
Cash and cash equivalents	37,722	37,722	-	-	-	-	37,722
Total	635,755	37,722	44,748	178,994	860,427	95,594	1,217,485
	Undiscounted Cash Flows						
Liabilities							
Long-term insurance fixed contracts with and guaranteed terms and without DPF	635,755	-	8,751	11,434	37,455	885,735	943,375
Net Liquidity Gap		37,722	35,997	167,560	822,972	(790,141)	274,110
Cumulative Liquidity Gap		37,722	73,719	241,279	1,064,251	274,110	-

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ii) Long-term insurance contracts with fixed and guaranteed terms and with DPF (continued)

Sensitivity analysis - interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

For the guaranteed element liabilities under long term insurance and investment contracts with DPF, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However, the DPF element liabilities are directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the DPF funds. An increase in the value of the assets would require, all other assumptions being equal, an increase in the DPF liability and vice versa.

Management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements in all yield curves.

An increase or decrease of 200 basis points in interest yields would not result in a gain or loss for the year due to the classification of the investment backing this portfolio, as held to maturity and are therefore carried at amortised cost.

Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to movements in the various stock exchange indexes with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

The equity securities described in this note are classified as financial assets at fair value through profit or loss. An increase of 10% in the share prices of stocks held by the Group would result in no gain or loss for current year as no equities were allocated to the portfolio. A similar decrease in the share prices of stock held by the Group would result in no profit or loss for the period.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(iii) Short term insurance contracts

The following table indicates the estimated amount and timing of undiscounted cash flows arising from the liabilities in this category of the Group's ALM framework:

The Group and the Company
2018

			Undiscounted Cash Flows				
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
			Contractual Cash Flows				
Assets							
Cash and cash equivalents	205,750	205,750	-	-	-	-	205,750
Total	205,750	205,750	-	-	-	-	205,750
			Undiscounted Cash Flows				
Liabilities							
Short-term insurance contracts	205,750	-	205,750	-	-	-	205,750
Net Liquidity Gap		205,750	(205,750)	-	-	-	-
Cumulative Liquidity Gap		205,750	(205,750)	-	-	-	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(iii) Short term insurance contracts (continued)

	The Group and the Company 2017 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Cash and cash equivalents	224,043	184,043	41,275	-	-	-	225,318
Total	224,043	184,043	41,275	-	-	-	225,318
	Undiscounted Cash Flows						
Liabilities							
Short-term insurance contracts	224,043	-	224,043	-	-	-	224,043
Net Liquidity Gap		184,043	(182,768)	-	-	-	1,275
Cumulative Liquidity Gap		184,043	1,275	1,275	1,275	1,275	-

Sensitivity analysis – interest rate risk

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(iv) Unit linked contracts (Segregated Funds)

Unit linked contracts asset are maintained to meet specific investment objectives of policyholders who bear all investment risks. The following tables indicate the estimated amount and timing of undiscounted cash flows arising from the liabilities in this category of the Group's ALM framework.

The Group and The Company
2018
Undiscounted Cash Flows

	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
				Contractual Cash Flows			
Assets							
Investment properties	63,711	-	-	-	-	63,711	63,711
Taxation recoverable	306,541	-	-	306,541	-	-	306,541
Financial assets	12,740,644	-	588,387	1,432,065	7,685,185	6,007,665	15,713,302
Loans and receivables	190,088	-	190,088	-	-	-	190,088
Cash and cash equivalents	757,592	269,632	496,524	-	-	-	766,156
Total	14,058,576	269,632	1,274,999	1,738,606	7,685,185	6,071,376	17,039,798
				Undiscounted Cash Flows			
Liabilities							
Estimated cash flows	14,058,576	-	183,081	987,313	908,315	11,979,867	14,058,576
Net Liquidity Gap		269,632	1,091,918	751,293	6,776,870	(5,908,491)	2,981,222
Cumulative Liquidity Gap		269,632	1,361,550	2,112,843	8,889,713	2,981,222	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(iv) Unit linked contracts (Segregated Funds) (continued)

The Group and The Company
2017
Undiscounted Cash Flows

	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Investment properties	60,515	-	-	-	-	60,515	60,515
Taxation recoverable	289,525	-	-	289,525	-	-	289,525
Financial assets	10,531,041	-	96,743	1,497,805	7,410,810	4,447,153	13,452,511
Loans and receivables	245,034	-	245,034	-	-	-	245,034
Cash and cash equivalents	755,166	428,132	335,606	-	-	-	763,738
Total	11,881,281	428,132	677,383	1,787,330	7,410,810	4,507,668	14,811,323
	Undiscounted Cash Flows						
Liabilities							
Estimated cash flows	11,881,281	-	134,785	898,090	980,086	9,868,320	11,881,281
Net Liquidity Gap		428,132	542,598	889,240	6,430,724	(5,360,652)	2,930,042
Cumulative Liquidity Gap		428,132	970,730	1,859,970	8,290,694	2,930,042	-

The Group's primary exposure to financial risk from unit linked contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the funds, on which investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by $27,770,000 per annum (2017 – $9,149,000).

Sensitivity analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(iv) Unit linked contracts (Segregated Funds) (continued)

Sensitivity analysis – interest rate risk (continued)

In relation to financial assets described in this note, management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements in all yield curves.

An increase of 200 (2017 – 200) basis points in interest yields would result in a loss for the period of $716,152,000 (2017 – $528,863,000). A similar decrease in interest yields would result in a profit for the period of $716,152,000 (2017 – $528,863,000).

Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to movements in the various stock exchange indexes with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

The equity securities described in this note are classified as financial assets at fair value through profit or loss. An increase of 10% in the share prices of stocks held by the Group would result in a profit for the period of $600,766,000 (2017 – $444,715,000). A similar decrease in the share prices of stocks held by the Group would result in a loss for the period of $600,766,000 (2017 – $444,715,000).

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(v) Approved deposit administration funds

The Group guarantees returns on these funds at stated rates of interest, and earns administration and investment fees.

Guaranteed interest rates are revised at least annually, which limits the impact of interest rate risk and equity risk on the spread between investment earnings and interest payments.

Management's process for monitoring the sensitivity of reported interest rate movements and movements of financial assets and equity price risk movements is similar to the process used for other assets described in this note.

The following tables indicate the estimated amount and timing of undiscounted contractual cash flows arising from the liabilities in this category of the Group's ALM framework:

	The Group and The Company 2018 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Property for development and sale	490,861	-	-	-	-	490,861	490,861
Taxation recoverable	563,560	-	-	563,560	-	-	563,560
Financial assets	16,446,912	-	792,073	3,002,716	18,511,854	-	22,306,643
Loans and receivables	147	-	147	-	-	-	147
Cash and cash equivalents	1,364,350	1,364,350	-	-	-	-	1,364,350
Total	18,865,830	1,364,350	792,220	3,566,276	18,511,854	490,861	24,725,561
	Undiscounted Cash Flows						
Liabilities							
Long-term insurance contracts with fixed and guaranteed terms and without DPF	18,865,830	747,383	-	-	-	18,118,447	18,865,830
Net liquidity gap		616,967	792,220	3,566,276	18,511,854	(17,627,586)	5,859,731
Cumulative liquidity gap		616,967	1,409,187	4,975,463	23,487,317	5,859,731	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(v) Approved deposit administration funds (continued)

	The Group and The Company 2017 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Investment property under construction	231,950	-	-	-	-	231,950	231,950
Taxation recoverable	436,401	-	-	436,401	-	-	436,401
Financial assets	17,939,933	-	2,092,767	3,416,671	13,083,152	3,192,971	21,785,561
Loans and Receivables	115,376	-	-	115,376	-	-	115,376
Cash and cash equivalents	139,145	139,145	-	-	-	-	139,145
Total	18,862,805	139,145	2,092,767	3,968,448	13,083,152	3,424,921	22,708,433
	Undiscounted Cash Flows						
Liabilities							
Long-term insurance contracts with fixed and guaranteed terms and without DPF	18,862,805	1,028,885	-	-	-	17,833,920	18,862,805
Net liquidity gap		(889,740)	2,092,767	3,968,448	13,083,152	(14,408,999)	3,845,628
Cumulative liquidity gap		(889,740)	1,203,027	5,171,475	18,254,627	3,845,628	-

Sensitivity analysis – interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

In relation to financial assets described in this note, management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements in all yield curves.

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(v) Approved deposit administration funds (continued)

Sensitivity analysis – interest rate risk (continued)

An increase of 200 (2017 - 200) basis points in interest yields would result in a loss for the period of $713,554,000 (2017- $632,549,000). A similar decrease in interest yields would result in a profit for the period of $716,534,000 (2017 - $632,549,000).

Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to movements in the various stock exchange indexes with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

There were no equities backing the Deposit Administration portfolio for the current year. For 2017, the equity securities described in this note are classified as financial assets at fair value through profit or loss. An increase of 10% in the share prices of stocks held by the Group would result in a profit for the period of $319,297,000. A similar decrease in the share prices of stocks held by the Group would result in a loss for the period of $319,297,000.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vi) Other liabilities

The following tables indicate the estimated amount and timing of undiscounted contractual cash flows arising from the assets and liabilities in the Group's ALM framework that are allocated to the Group's other liabilities:

	The Group and The Company 2018 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Taxation Recoverable	257,343	-	-	257,343	-	-	257,343
Financial Assets	595,266	-	595,266	-	-	-	595,266
Cash and cash equivalents	2,719,105	2,195,892	523,213	-	-	-	2,719,105
Total	3,571,714	2,195,892	1,118,479	257,343	-	-	3,571,714
	Undiscounted Cash Flows						
Liabilities							
Other	5,623,110	-	5,623,110	-	-	-	5,623,110
Net Liquidity Gap	2,051,396	2,195,892	(4,504,631)	257,343	-	-	(2,051,396)
Cumulative Liquidity Gap		2,195,892	(2,308,739)	(2,051,396)	(2,051,396)	(2,051,396)	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vi) Other liabilities (continued)

	The Group and The Company 2017 Undiscounted Cash Flows						
	Carrying Amount $'000	On Demand $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
	Contractual Cash Flows						
Assets							
Taxation Recoverable	233,650	-	-	233,650	-	-	233,650
Financial assets	508,828	-	514,403	-	-	-	514,403
Loans and receivable	1,230,755	-	1,230,755	-	-	-	1,230,755
Cash and cash equivalents	2,427,186	1,096,567	1,346,735	-	-	-	2,443,302
Total	4,400,419	1,096,567	3,091,893	233,650	-	-	4,422,110
	Undiscounted Cash Flows						
Liabilities							
Other	4,400,419	-	4,400,419	-	-	-	4,400,419
Net Liquidity Gap		1,096,567	(1,308,526)	233,650	-	-	21,691
Cumulative Liquidity Gap		1,096,567	(211,959)	21,691	21,691	21,691	-

These assets and liabilities are not particularly sensitive to market risks as they have a short period to maturity and, with the exception of repurchase agreements, are non-interest bearing.

(vii) Credit risk

Credit risk is defined as the potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations to us. The Group has a Board appointed Investment Committee (in accordance with the Insurance Act and Regulations) that sets credit limits and monitors exposure by constraining the magnitude and tenor of the exposure to counterparties and issuers. The Investment Committee initiates regular portfolio reviews, monitors counterparty creditworthiness, and evaluates potential transaction risks with a view towards early problem identification and protection against unacceptable credit-related losses.

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

-Amounts due from issuers of investment securities held;
-Amounts due from institutions holding short term cash and deposits;
-Re-insurers' share of insurance liabilities;
-Amounts due from re-insurers in respect of claims already paid;
-Amounts due from insurance contract holders; and
-Amounts due from insurance intermediaries.

Investment and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

The Group has underwriting policies in place to ensure that sales of products and services are made to potential policyholders with an appropriate credit history and financial standing to meet the premium payments when due.

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

The Group actively monitors the financial status of its reinsurers both by reference to publicly available information and the Financial Strength Ratings of A.M. Best. All of the Group's reinsurers are rated superior by A. M. Best. A rating of superior is assigned to reinsurance companies that have, in the opinion of A.M. Best, a superior ability to meet their ongoing obligations to the primary insurer.

Below is an analysis of assets bearing credit risk:

	The Group and The Company
	Gross exposure
	$'000
As at 31 December 2018	
Investment securities measured at fair value through profit or loss (excluding equity instruments)	13,247,600
Investment securities measured at fair value through other comprehensive income	7,555,133
Investment securities measured at amortised cost	22,575,912
Loans and receivables including insurance receivables	2,622,539
Cash and cash equivalents	4,413,661
	50,414,845

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Comparative information under IAS 39

	The Group and The Company		
	Neither Past Due nor Impaired	Impaired	Total
	$'000	$'000	$'000
As at 31 December 2017			
Financial assets	43,876,599	-	43,876,599
Loans and receivables including insurance receivables	2,570,535	-	2,570,535
Cash and cash equivalents	2,864,916	-	2,864,916
	49,312,050	-	49,312,050

Credit quality of reinsurance and financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings, if available, or to a rating assigned by the investment manager using an approach consistent with that used by Standard and Poor's.

AAA
An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA
An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment is very strong.

A
An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

Below BBB
Obligations rated 'Below BBB' are regarded as having significant speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Not Rated
This indicates that there is insufficient information on which to base a rating. These balances are current and are monitored regularly for impairment. This classification mainly includes obligations due from individuals and short-term securities.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Credit quality of reinsurance and financial assets (continued)

The following table sets out the credit quality analysis for reinsurance assets and financial assets (excluding equity instruments).

	The Group and The Company			
		Lifetime ECL 2018		
	12-month ECL	Not credit impaired	Credit impaired	Total
	$'000	$'000	$'000	$'000
As at 31 December				
Loans and receivables				
A	-	257,145	-	257,145
Below BBB**	482,828	2,228	-	485,056
Not rated**	137,579	1,742,759	-	1,880,338
Gross carrying amount	620,407	2,002,132		2,622,539
Loss allowance	-	(235,772)	-	(235,772)
Net carrying amount	620,407	1,766,360	-	2,386,767
As at 31 December				
Cash and cash equivalents				
A	1,571,866	-	-	1,571,866
Below BBB	2,841,795	-	-	2,841,795
Gross carrying amount	4,413,661	-	-	4,413,661
Loss allowance	(53,534)	-	-	(53,534)
Net carrying amount	4,360,127	-	-	4,360,127

** No 12-month ECL was calculated on the balances included in 'loans and receivables' as these amounts are other assets not subject to impairment.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Credit quality of reinsurance and financial assets (continued)

	The Group and the Company				
	2018				
	Below BBB Neither past due credit impaired	Below BBB 12 month ECL	Below BBB Lifetime ECL Not credit impaired	Below BBB Lifetime ECL credit impaired	Total
	$'000	$'000	$'000	$'000	$'000
As at 31 December					
Investment securities at FVPL (excluding equities)	11,862,493	-	-	-	11,862,493
Investment securities at amortised cost	-	22,575,912	-	-	22,575,912
Investment securities at FVOCI	-	3,964,378	161,338	3,429,417	7,555,133
Deposits (> 90 days) at FVPL	777,076	-	-	-	777,076
Debentures and corporate bonds at FVPL	534,900	-	-	-	534,900
Other at FVPL	73,131	-	-	-	73,131
	13,247,600	26,540,290	161,338	3,429,417	43,378,645
Loss Allowance	-	(524,976)	-	-	(524,976)
	13,247,600	26,015,314	161,338	3,429,417	42,853,669

Comparative information under IAS 39

An analysis of the credit quality of reinsurance assets and financial assets (excluding equity instruments) that were neither past due nor impaired as at 31 December 2017 is as follows.

	The Group and the Company			
	2017			
	A	Below BBB	Not Rated	Total
	$'000	$'000	$'000	$'000
As at 31 December				
Financial assets	-	43,876,599	-	43,876,599
Loans and receivables including insurance receivables	125,398	12,526	2,432,611	2,570,535
Cash and cash equivalents	-	2,864,916	-	2,864,916
	125,398	46,754,041	2,432,611	49,312,050

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial asset. Reconciling items include the following:

► New assets originated or purchased, which reflect the allowance related to assets newly recognized during the period.

► Assets derecognised, which reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.

► Net transfer to/(from) 12-month ECL and lifetime ECL, which are presumed to occur before any corresponding measurement of the allowance.

► Remeasurements, which comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions; changes in the measurement following a transfer between 12-month ECL and lifetime ECL; and unwinding of the time value discount due to the passage of time.

Comparative amounts (2017) represent impairment provisions for credit losses and reflect measurement basis under IAS 39.

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Loss allowance (continued)

		Lifetime ECL			
	12-month ECL 2018	Not credit impaired 2018	Credit impaired 2018	Total 2018	Total 2017
Investment securities measured at fair value through other comprehensive income	$'000	$'000	$'000	$'000	$'000
Balance at 1 January (2018 restated) (Note 41)	84,157	1,024,699	-	1,108,856	-
New assets originated or purchased	2,999	-	-	2,999	-
Assets de-recognised (excluding write-offs)	-	(1,140,140)	-	(1,140,140)	-
Net transfer to/(from) lifetime ECL - not credit impaired	(701)	701	-	-	-
Remeasurements	(5,268)	117,105	-	111,837	-
Balance at 31 December	81,187	2,365	-	83,552	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Loss allowance (continued)

		Lifetime ECL			
	12-month ECL 2018	**Not credit impaired 2018**	**Credit impaired 2018**	**Total 2018**	**Total 2017**
Investment securities measured at amortized cost	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January (2018 restated) (Note 41)	605,029	-	-	605,029	-
New assets originated or purchased	25,617	-	-	25,617	-
Remeasurements	(105,669)	-	-	(105,669)	-
Balance at 31 December (Note 10)	524,977	-	-	524,977	-

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Loss allowance (continued)

		Lifetime ECL			
	12-month ECL 2018 $'000	Not credit impaired 2018 $'000	Credit impaired 2018 $'000	Total 2018 $'000	$'000
Loans and receivables					
Balance at 1 January (IAS 39)	-	228,012	-	228,012	-
Re-measurements on initial application of IFRS 9 (Note 41)		638		638	-
Remeasurements (Note 30)		25,708	-	25,708	
Amounts written-off	-	(18,586)	-	(18,586)	-
Balance at 31 December	-	235,772	-	235,772	-

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(vii) Credit risk (continued)

Cash and cash equivalents

Impairment on cash and cash equivalents measured at amortised cost has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group uses a similar approach for the assessment of expected credit losses for cash and cash equivalents to those used for debt securities.

On initial application of IFRS 9, the Group recognised an impairment allowance as at 1 January 2018 in the amount of $124M. The amount of the allowance decreased by $70M during 2018.

Concentrations of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

The following table breaks down the Group's main credit risk exposure as categorised by the industry sectors of its counterparties. Comparative amounts (2017) represent credit exposure on assets that are neither past due nor impaired under IAS 39.

	The Group and the Company	
	2018	**2017**
	$'000	**$'000**
Financial services	5,682,499	3,576,045
Public sector	42,272,752	43,103,650
Agent/Brokers/Reinsurers	1,453,922	1,273,803
Consumers/individuals	143,831	341,301
Other industries	861,841	1,017,251
	50,414,845	49,312,050

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(viii) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due, at a reasonable cost. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

Certain of the Group's contracts have features that allow them to be terminated at short notice creating a potential liquidity exposure. The Group monitors liquidity on a regular basis. An internally constituted Executive Investment Committee set limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover claims.

There are no individual contracts or policyholders who have the potential to influence the withdrawal of a significant amount of liabilities.

The following tables analyze the insurance and financial liabilities of the Group into relevant maturity groupings based on the remaining period to the contractual or expected maturity date. Financial liabilities are at contractual undiscounted cash flows, and insurance contracts and investment contracts are at expected undiscounted cash flows.

	The Group and The Company 2018 Contractual/Expected Undiscounted Cash Flows					
	Carrying Amount $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
Long-term insurance contracts	19,792,860	171,787	1,340,877	7,312,585	105,213,017	114,038,266
Short-term insurance contracts	205,750	205,750	-	-	-	205,750
Investment contracts	18,865,830	747,383	-	-	18,118,447	18,865,830
Other policy liabilities	1,917,988	1,917,988	-	-	-	1,917,988
Other liabilities	2,200,919	2,200,919	-	-	-	2,200,919
Total	42,983,347	5,243,827	1,340,877	7,312,585	123,331,464	137,228,753

	The Group and The Company 2017 Contractual/Expected Undiscounted Cash Flows					
	Carrying Amount $'000	Less Than One Year $'000	One to Five Years $'000	Over Five Years $'000	No Maturity Date $'000	Total $'000
Long-term insurance contracts	21,786,561	504,222	1,337,129	4,627,844	102,492,716	108,961,911
Short-term insurance contracts	224,043	216,139	-	-	-	216,139
Investment contracts	18,862,805	1,028,885	-	-	17,833,920	18,862,805
Other policy liabilities	1,574,349	1,574,349	-	-	-	1,574,349
Other liabilities	1,735,740	1,735,740	-	-	-	1,735,740
Total	44,183,498	5,059,335	1,337,129	4,627,844	120,326,636	131,350,944

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ix) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has operations in the Caribbean and has exposure risks with respect to the US, Belize, Barbados and the UK pound. The Group's strategy for dealing with foreign exchange risk is to as far as possible offset foreign currency liabilities with assets denominated in the same currency.

Sensitivity analysis – currency risk

The items on the Group's statement of financial position that are significantly impacted by changes in currency rates are investment securities and cash and cash equivalents of which the United States dollar had the greatest impact. The effect of 5% (2017: 5%) devaluation in the Jamaican dollar relative to the United States dollar at the statement of financial position date is as follows:

	The Group and the Company		The Group and the Company	
	2018		2017	
	Effect on Profit and Loss	Effect on Equity	Effect on Profit and Loss	Effect on Equity
	$'000	$'000	$'000	$'000
Financial assets	231,639	231,639	250,082	250,082
Cash and cash equivalents	99,936	99,936	51,845	51,845

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ix) Currency risk (continued)

The following tables summarize the Group's assets and liabilities at carrying amounts categorized by currency.

	2018					
	The Group					
	JA$	**US$**	**GBP**	**BD$**	**Other**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets						
Property and equipment	2,552,138	-	-	-	-	2,552,138
Investment properties	1,900,373	-	-	-	-	1,900,373
Property for development and sale	490,861	-	-	-	-	490,861
Intangible assets	75,851	-	-	-	-	75,851
Taxation recoverable	773,649	178,869	2,182	41,453	-	996,153
Financial assets	43,089,453	4,632,786	58,438	3,582,988	-	51,363,665
Loans and receivables	2,278,033	104,874	689	3,171	-	2,386,767
Cash and cash equivalents	1,908,904	1,994,577	540	447,855	-	4,351,876
Cash and cash equivalents of mutual fund unit holders	-	4,141	-	-	4,110	8,251
Segregated funds' assets	14,058,576	-	-	-	-	14,058,576
Total Assets	67,127,838	6,915,247	61,849	4,075,467	4,110	78,184,511
Liabilities						
Insurance contracts	19,988,187	-	1,439	8,984	-	19,998,610
Investment contracts	14,735,305	-	-	4,130,525	-	18,865,830
Other policy liabilities	1,910,318	1,097	6,573	-	-	1,917,988
Deferred tax liabilities	1,260,515	-	-	-	-	1,260,515
Provision for taxation	243,688	-	-	-	-	243,688
Other liabilities	1,801,274	2,689	39,787	355,387	1,782	2,200,919
Segregated funds' liabilities	14,058,576	-	-	-	-	14,058,576
Total Liabilities	53,997,863	3,786	47,799	4,494,896	1,782	58,546,126
Net Position	13,129,975	6,911,461	14,050	(419,429)	2,328	19,638,385

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ix) Currency risk (continued)

	2017						
	The Group						
	JA$	US$	GBP	BD$	BZ$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Assets							
Property and equipment	2,503,749	-	-	-	-	-	2,503,749
Investment properties	1,765,884	-	-	-	-	-	1,765,884
Property for development and sale	231,950	-	-	-	-	-	231,950
Intangible assets	69,774	-	-	-	-	-	69,774
Taxation recoverable	723,064	174,984	2,195	41,141	-	-	941,384
Financial assets	40,645,805	5,165,696	6,029	4,327,435	-	44,443	50,189,408
Loans and receivables	2,646,194	-	565	1,513	106,922	-	2,755,194
Cash and cash equivalents	1,391,659	1,036,900	55,085	381,272	-	-	2,864,916
Segregated funds' assets	11,881,281	-	-	-	-	-	11,881,281
Total Assets	61,859,360	6,377,580	63,874	4,751,361	106,922	44,443	73,203,540
Liabilities							
Insurance contracts	21,993,668	-	6,824	9,123	-	989	22,010,604
Investment contracts	15,076,237	-	-	3,786,125	-	443	18,862,805
Other policy liabilities	1,337,875	-	41,864	194,610	-	-	1,574,349
Deferred tax liabilities	815,295	-	-	-	-	-	815,295
Provision for taxation	275,035	-	-	-	-	-	275,035
Other liabilities	1,732,048	3,616	-	-	-	76	1,735,740
Segregated funds' liabilities	11,881,281	-	-	-	-	-	11,881,281
Total Liabilities	53,111,439	3,616	48,688	3,989,858	-	1,508	57,155,109
Net Position	8,747,921	6,373,964	15,186	761,503	106,922	42,935	16,048,431

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ix) Currency risk (continued)

	2018					
	The Company					
	JA$	**US$**	**GBP**	**BD$**	**Other**	**Total**
	J$'000	**J$'000**	**J$'000**	**J$'000**	**J$'000**	**J$'000**
Assets						
Property and equipment	2,552,138	-	-	-	-	2,552,138
Investment properties	1,900,373	-	-	-	-	1,900,373
Property for development and sale	490,861	-	-	-	-	490,861
Intangible assets	75,851	-	-	-	-	75,851
Investment in subsidiary	70	-	-	-	-	70
Taxation recoverable	773,649	178,869	2,182	41,453	-	996,153
Financial assets	43,089,453	4,632,786	58,438	3,582,988	-	51,363,665
Loans and receivables	2,277,983	104,874	689	3,171	-	2,386,717
Cash and cash equivalents	1,908,904	1,994,577	540	447,855	-	4,351,876
	-	4,141	-	-	4,110	8,251
Segregated funds' assets	14,058,576	-	-	-	-	14,058,576
Total Assets	67,127,858	6,915,247	61,849	4,075,467	4,110	78,184,531
Liabilities						
Insurance contracts	19,988,187	-	1,439	8,984	-	19,998,610
Investment contracts	14,735,305	-	-	4,130,525	-	18,865,830
Other policy liabilities	1,910,318	1,097	6,573	-	-	1,917,988
Deferred tax liabilities	1,260,515	-	-	-	-	1,260,515
Provision for taxation	243,688	-	-	-	-	243,688
Other liabilities	1,801,274	2,689	39,787	355,387	1,782	2,200,919
Segregated funds' liabilities	14,058,576	-	-	-	-	14,058,576
Total Liabilities	53,997,863	3,786	47,799	4,494,896	1,782	58,546,126
Net Position	13,129,995	6,911,461	14,050	(419,429)	2,328	19,638,405

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36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(ix) Currency risk (continued)

	2017						
	The Company						
	JA$	US$	GBP	BD$	BZ$	Other	Total
	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000	J$'000
Assets							
Property and equipment	2,503,749	-	-	-	-	-	2,503,749
Investment properties	1,765,884	-	-	-	-	-	1,765,884
Property for development and sale	231,950	-	-	-	-	-	231,950
Intangible assets	69,774	-	-	-		-	69,774
Investment in subsidiary	70	-	-	-	-	-	70
Taxation recoverable	723,064	174,984	2,195	41,141	-	-	941,384
Financial assets	40,645,805	5,165,696	6,029	4,327,435	-	44,443	50,189,408
Loans and receivables	2,646,144	-	565	1,513	106,922	-	2,755,144
Cash and cash equivalents	1,391,659	1,036,900	55,085	381,272	-	-	2,864,916
Segregated funds' assets	11,881,281	-	-	-	-	-	11,881,281
Total Assets	61,859,380	6,377,580	63,874	4,751,361	106,922	44,443	73,203,560
Liabilities							
Insurance contracts	21,993,668	-	6,824	9,123	-	989	22,010,604
Investment contracts	15,076,237	-	-	3,786,125	-	443	18,862,805
Other policy liabilities	1,337,875	-	41,864	194,610	-	-	1,574,349
Deferred tax liabilities	815,295	-	-	-	-	-	815,295
Provision for taxation	275,035	-	-	-	-	-	275,035
Other liabilities	1,732,048	3,616	-	-	-	76	1,735,740
Segregated funds' liabilities	11,881,281	-	-	-	-	-	11,881,281
Total Liabilities	53,111,439	3,616	48,688	3,989,858	-	1,508	57,155,109
Net Position	8,747,941	6,373,964	15,186	761,503	106,922	42,935	16,048,451

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(x) Capital management

For the purpose of the Group's capital management, capital includes issued capital and other equity reserves attributable to the equity holders of the parent. The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators of the markets where the Group operates. Management considers the quantitative threshold sufficient to maximize shareholder's returns and to support the capital required to write each of its business in the countries where the Company operates;

- to safeguard the Group'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 provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk

The table below compares the total capital resources for the Group as at 31 December 2018 and 2017.

	2018 $'000	2017 $'000
Shareholders' fund	19,638,385	16,048,451
Available Capital Resources	16,207,846	12,341,609

The capital resources are divided into two tiers:

i) Tier 1 Capital: Ordinary Shares and retained earnings.
ii) Tier 2 Capital: Unrealized net gains or investment reserves and negative reserves.

The Group is subject to insurance solvency regulations in Jamaica in which it issues insurance and investment contracts and has embedded in its ALM Framework the necessary tests to ensure continuous and full compliance with such regulations. The Group currently has one branch operation in Barbados. However, there are no capital adequacy requirements for life insurance entities beyond the need for assets to cover liabilities at the statement of financial position date.

(Expressed in Jamaican dollars unless otherwise indicated)

36 Management of Insurance and Financial Risk (Continued)

b. Financial risk (continued)

(x) Capital management (continued)

To assist in evaluating the current business and strategy opportunities, a risk-based capital 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) ratio, determined in accordance with the Insurance Regulations, 2001.

The table below compares the MCCSR ratio for the Group as at 31 December 2018 and 2017 with the minimum ratio required by the Insurance Regulations, 2001: The Group has complied with these requirements.

2018		2017	
MCCSR Ratio	**Minimum Ratio Required**	**MCCSR Ratio**	**Minimum Ratio Required**
245%	150%	202%	150%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

c. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market (such as a recognised stock exchange) 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 and liabilities held and issued by the Group. 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 statement of financial position 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:

(i) Investment securities classified as fair value through profit or loss 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;

(ii) 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;

(iii) The fair values and the carrying values of policyholders' funds are assumed to be the same based on the results of the actuarial valuation.

(iv) The fair value of Policyholders' loans cannot be reasonable estimated at reporting date.

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36 Management of Insurance and Financial Risk (Continued)

c. Fair value of financial instruments (continued)

The following tables present the fair value of financial instruments for the Group and the Company which are not reflected in the financial statements at their fair value:

	2018		2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Investment Securities -				
Held-to-maturity	-	-	22,262,146	26,950,338
Financial assets at amortized cost	21,693,130	30,393,164	-	-
Secured loan receivable	103,602	99,022	110,382	111,490

The following table provides the fair value hierarchy of the Group's assets and liabilities that are not measured at fair value in the statement of financial position but whose fair values are disclosed in the accompanying notes:

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
At 31 December 2018				
Held-to-maturity securities				
Financial assets at amortized cost	-	30,393,164	-	30,393,164
Secured loan receivable	-	-	99,022	99,022
	-	30,393,164	99,022	30,492,186

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
	$'000	**$'000**	**$'000**	**$'000**
At 31 December 2017				
Held-to-maturity securities	-	26,950,338	-	26,950,338
Secured loan receivable	-	-	111,490	111,490
	-	26,950,338	111,490	27,061,828

37 Fiduciary Risk

The company provides administration, investment management or advisory services to third parties which involve making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These assets are not included in these financial statements and include the following:

(i) Assets of the pooled pension investment funds which are held in trust, on behalf of pension funds and individual retirement schemes. At 31 December 2018, the assets totaled $13,890,838,000 (December 2017: $10,334,893,000).

(ii) Assets of self-directed pension funds on behalf of clients which are also held in trust. At 31 December 2018, the assets of these funds totaled $4,245,504,000 (31 December 2017: $3,310,689,000).

38 Litigation and Contingent Liabilities

The Group is subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

39 Operating Lease commitments – where the company is the lessee

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

	2018 $'000	2017 $'000
Not later than one year	1,983	1,983
Later than one year and no later than five years	5,330	5,330
Over five years	5,330	6,663
	12,643	13,976

Rental expense under these leases amounted to $1,990,000 for 2018 (2017: $1,998,000).

40 Pension Scheme

The Company operates a defined contribution pension scheme for all permanent administrative and sales staff. The scheme commenced on 1 March 2000 and its assets and liabilities are held separately from those of the Company in a trust fund, which is included in the Company's Investment Contracts (Note 18). Employees are required to contribute a minimum of 5% of pensionable salary; the contribution rate by the employer is 5% of pensionable salary. As at 31 December 2018, contributions made totaled $269,742,000 (2017: $252,408,000).

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41 Impact of initial application of IFRS 9

The Group adopted IFRS 9 with a date initial application of 1 January 2018, which resulted in changes to the Group's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets.

As permitted by the transitional provisions of IFRS 9, the Group did not restate comparative amounts. The cumulative retrospective impact of applying the new requirements has been reflected in the Group's opening statement of financial position as at 1 January 2018, as shown below. Also, for notes disclosures, the consequential amendments to IFRS 7 Financial instruments: Disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The impact of the initial application of IFRS 9 on the Group's consolidated statement of financial position is as follows:

	Audited	IFRS 9 Transfers within categories on adoption of IFRS 9	Remeasurements: Initial application of IFRS 9	Restated
	01-Jan-18	01-Jan-18	01-Jan-18	01-Jan-18
	$'000	$'000	$'000	$'000
ASSETS				
Investment securities				
FVPL	27,272,235	(7,289,573)	528,453	20,511,115
AC	22,287,146	(828,666)	(592,122)	20,866,358
FVOCI	-	8,118,239	(1,024,699)	7,093,540
Investment securities of mutual fund unit holders	7,995	(7,995)	-	-
Interest receivable	622,032	-	-	622,032
Loans and receivables	2,755,194	-	(638)	2,754,556
Cash and cash equivalents	2,864,916	-	(123,700)	2,741,216
Cash and cash equivalents of mutual fund unit holders	-	7,995	(9)	7,986
Other assets	5,512,741	-	-	5,512,741
Segregated funds' assets	11,881,281	-	-	11,881,281
Total Assets	**73,203,540**	**-**	**(1,212,715)**	**71,990,825**

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41 Impact of initial application of IFRS 9 (Continued)

	Audited 01-Jan-18 $'000	IFRS 9 Transfers Within Categories on adoption of IFRS 9 01-Jan-18 $'000	Remeasurements: Initial application of IFRS 9 01-Jan-18 $'000	Restated 01-Jan-18 $'000
Equity and Liabilities				
Share capital	126,525	-	-	126,525
Stock option reserve	54,243	-	-	54,243
Reserves	3,615,794	-	427,537	4,043,331
Retained earnings	12,251,869	-	(1,923,114)	10,328,755
Total Equity	**16,048,431**	-	**(1,495,577)**	**14,552,854**
Liabilities				
Insurance Contracts	22,010,604	-	-	22,010,604
Investment contracts	18,862,805	-	-	18,862,805
Other policy liabilities	1,574,349	-	-	1,574,349
	42,447,758	-	-	42,447,758
Deferred tax liabilities	815,295	-	282,862	1,098,157
Provision for taxation	275,035	-	-	275,035
Other liabilities	1,735,740	-	-	1,735,740
Segregated funds' liabilities	11,881,281	-	-	11,881,281
Total Liabilities	**57,155,109**	**-**	**282,862**	**57,437,971**
Total Equity and Liabilities	**73,203,540**	**-**	**(1,212,715)**	**71,990,825**

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41 Impact of initial application of IFRS 9 (Continued)

The impact of initial application of IFRS 9 on the Group's reserves and retained earnings is, as follows:

	Reserve $'000	Retained Earnings $'000
Audited opening balance - 1 January 2018 - IAS 39	**3,615,794**	**12,251,869**
Reclassification adjustments (before taxation):		
From FVPL to AC	-	(46,124)
From AC to FVPL-M	-	574,577
From FVPL to FVOCI	429,294	(429,294)
From AC to FVOCI	12,907	-
Expected credit losses adjustments (before taxation):		
Increase in provision for financial assets at AC	-	(605,029)
Increase in provision for financial assets at FVOCI	84,157	(1,108,856)
Increase in provision for cash and cash equivalents	-	(123,709)
Increase in provision for other loans and receivables	-	(638)
Taxation adjustments (Note 20)	(98,821)	(184,041)
Total IFRS 9 initial application adjustments	427,537	(1,923,114)
Restated opening balance - 1 January 2018 - IFRS 9	**4,043,331**	**10,328,755**

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41 Impact of initial application of IFRS 9 (Continued)

IFRS 9 transition disclosures

Classification and measurement of financial assets on the date of initial application of IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018 and excludes the movement for expected credit losses (ECL).

Measurement category	Carrying value IAS 39 $'000	FVPL $'000	AC $'000	FVOCI $'000	Fair Value Adjustments $'000	Total $'000
Financial assets	50,181,413	-	-	-	-	50,181,413
Transfer from FVPL to AC	-	(2,533,865)	2,533,865	-	(46,124)	(46,124)
Transfer from AC to FVPL	-	3,210,061	(3,210,061)	-	574,577	574,577
Transfer from AC to FVOCI	-	-	(95,705)	95,705	12,907	12,907
Transfer from FVPL to FVOCI	-	(8,133,086)	-	8,133,086	-	-
Financial assets of mutual fund unit holders	7,995	(7,995)	-	-	-	-
Loans and receivables	2,755,194	-	-	-	-	2,755,194
Cash and cash equivalents	2,864,916	-	-	-	-	2,864,916
Cash and cash equivalents of mutual fund unit holders	-	7,995	-	-	-	7,995
Other assets	17,394,022	-	-	-	-	17,394,022
	73,203,540	**(7,456,890)**	**(771,901)**	**8,228,791**	**541,360**	**73,744,900**

41 Impact of initial application of IFRS 9 (Continued)

IFRS 9 transition disclosures (continued)

Classification and measurement of financial assets on the date of initial application of IFRS 9 (continued)

The Group's accounting policies on classification of financial instruments under IFRS 9 are set out in Note 2(c). The application of these policies resulted in the reclassifications set out in the table above and explained below.

Certain debt securities are held in a separate portfolio for long term yield. These securities may be sold, but such sales are not expected to be frequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortized cost under IFRS 9.

Certain debt securities are held in separate portfolios to meet everyday liquidity needs. The return on these portfolios consist of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These assets are therefore measured at fair value through other comprehensive income under IFRS 9.

Certain securities are held in separate portfolios and are managed with an objective of realizing cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities performance and to make decisions. In addition, certain asset backed securities have contractual cash flows that are not solely payments of principal and interest. These assets are therefore measured at fair value through profit or loss under IFRS 9.

For financial assets that have been reclassified from the fair value through profit or loss category to the amortized cost and fair value through other comprehensive income categories, the following table shows their fair value as at 31 December 2018, interest revenue and the fair value gain or loss that would have been recognized if these financial assets had not been reclassified as part of the transition to IFRS 9.

	Financial assets reclassified from FVPL to AC $'000 2018	Financial assets reclassified from FVPL to FVOCI $'000 2018
Fair value of financial assets reclassified, as at 31 December 2018	2,621,677	3,326,718
Fair value gain or loss that would have been recognized during 2018 in the statement of profit or loss if the financial assets have not been reclassified.	(122,544)	(223,483)
Interest revenue recognized during 2018 on reclassified financial assets	41,135	233,483
	%	%
Effective interest rate determined on date of initial application of IFRS 9	5.15%	4%-7.08%

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41 Impact of initial application of IFRS 9 (Continued)

IFRS 9 transition disclosures (continued)

Classification and measurement of financial assets on the date of initial application of IFRS 9 (continued)

Reconciliation of loss allowance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new loss allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018.

	FVOCI Investment securities $'000	AC Investment securities $'000	AC - loans and other receivables $'000	AC - cash and cash equivalents $'000	Total $'000
Balance at 31 December 2017 per IAS 39		-	228,012	-	228,012
Remeasurement on initial application of IFRS 9	1,024,699	605,029	638	123,709	1,754,075
Balance as at 1 January 2018 per IFRS 9	1,024,699	605,029	228,650	123,709	1,982,087