JN LIFE INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
JN LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JN Life Insurance Company Limited (the Company), set out on pages 5 to 50, which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and 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 financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN LIFE INSURANCE COMPANY LIMITED

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JN LIFE INSURANCE COMPANY LIMITED

Report on Additional Matters as Required by the Jamaican Companies Act

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

March 5, 2018

JN LIFE INSURANCE COMPANY LIMITED

Statement of Financial Position
December 31, 2017

	Notes	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents	5	26,279	9,436
Accounts receivable	6	26,184	47,729
Due from related entities	7(a)	2,624	1,433
Investments	8	544,226	398,009
Securities purchased under resale agreements	9	80,092	89,433
Property, plant and equipment	10	7,723	14,281
Intangible asset	11	62,591	-
Total assets		749,719	560,321
Equity and liabilities			
Equity			
Share capital	12	1	1
Capital reserve	13	-	152,740
Investment revaluation reserve	14	22,134	2,297
Retained earnings		569,585	328,033
Total equity		591,720	483,071
Liabilities			
Accounts payable	15	41,408	31,995
Income tax payable		6,478	1,618
Policyholders' liabilities	16	81,794	42,817
Dividend payable	26	25,000	-
Due to related entities	7(b)	1,735	69
Deferred tax liability	17	1,584	751
Total liabilities		157,999	77,250
Total equity and liabilities		749,719	560,321

The financial statements on pages 5 to 50 were approved by the Board of Directors on March 5, 2018 and signed on its behalf by:

_____ Chairman
Peter Morris

_____ Director
Kay Osborne

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

JN LIFE INSURANCE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2017

	Notes	2017 $'000	2016 $'000
Income			
Gross premium income		523,851	416,742
Insurance premium ceded to reinsurers		(59,374)	(69,955)
Net premium income		464,477	346,787
Policyholders' benefits and expenses			
Insurance benefits incurred		(139,137)	(158,987)
Less reinsurance		16,929	53,297
Net insurance benefits incurred		(122,208)	(105,690)
Increase in actuarial reserves	16(b)(i)	(28,513)	(12,360)
Administrative expenses	18	(165,805)	(123,681)
		(316,526)	(241,731)
Profit before finance income and taxation		147,951	105,056
Finance income			
Interest income			
- Available-for-sale financial assets		27,927	19,854
- Loans and receivables		11,593	12,353
- Staff loans		105	143
Foreign exchange (losses)/gains		(441)	1,252
		39,184	33,602
Profit before taxation		187,135	138,658
Taxation	20(a)	(48,323)	(35,361)
Profit for the year		138,812	103,297
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Change in fair value of available-for-sale investments, being total other comprehensive income	20(d)	19,837	1,494
Total comprehensive income for the year		158,649	104,791

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

JN LIFE INSURANCE COMPANY LIMITED

Statement of Changes in Equity
Year ended December 31, 2017

	Share capital $'000 (note 12)	Capital reserve $'000 (note 13)	Investment revaluation reserve $'000 (note 14)	Retained earnings $'000	Total $'000
Balances at December 31, 2015	1	152,740	803	238,117	391,661
Total comprehensive income:					
Profit for the year	-	-	-	103,297	103,297
Other comprehensive income:					
Change in fair value of available-for-sale investments, being total other comprehensive income for the year	-	-	1,494	-	1,494
Total comprehensive income	-	-	1,494	103,297	104,791
Transactions with owner:					
Dividends (note 26)	-	-	-	(13,381)	(13,381)
Balances at December 31, 2016	1	152,740	2,297	328,033	483,071
Total comprehensive income:					
Profit for the year	-	-	-	138,812	138,812
Other comprehensive income:					
Change in fair value of available-for-sale investments, being total other comprehensive income for the year	-	-	19,837	-	19,837
Total comprehensive income	-	-	19,837	138,812	158,649
Transactions with owner:					
Dividends (note 26)	-	-	-	(50,000)	(50,000)
Movement between reserves:					
Transfer to retained earnings	-	(152,740)	-	152,740	-
Balances at December 31, 2017	1	-	22,134	569,585	591,720

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

JN LIFE INSURANCE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		138,812	103,297
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Interest income		(39,625)	(32,350)
Increase in actuarial reserves	16(b)	28,513	12,360
Depreciation and amortisation	10,11	5,230	3,938
Loss on disposal of property, plant and equipment		11	48
Deferred taxation	20(a)(ii)	833	(7)
Current tax expense	20(a)(i)	47,490	35,368
		181,264	122,654
Change in operating assets and liabilities:			
Accounts receivable	6	(5,491)	(3,832)
Due from related entities		(1,191)	(569)
Accounts payable		9,413	(3,150)
Policyholders' liabilities		10,464	11,354
Due to related entities		1,666	(6,559)
Cash generated from operations		196,125	119,898
Interest received		34,568	31,589
Income tax paid		(42,630)	(52,189)
Net cash provided by operating activities		188,063	99,298
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments		(126,380)	(12,187)
Securities purchased under resale agreements		9,341	(32,279)
Acquisition of property, plant and equipment and intangible assets	10,11	(29,181)	(9,278)
IT software prepayment		-	(31,343)
Net cash used by investing activities		(146,220)	(85,087)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend paid to parent, being net cash flows used by financing activity	26	(25,000)	(23,381)
Net increase/(decrease) in cash and cash equivalents		16,843	(9,170)
Cash and cash equivalents at the beginning of the year		9,436	18,606
Cash and cash equivalents at end of the year		26,279	9,436

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

1. The Company

JN Life Insurance Company Limited ("the Company") is incorporated in Jamaica as a wholly-owned subsidiary of JN Financial Group Limited ("parent company") which is 100% owned by The Jamaica National Group Limited ("ultimate parent") [2016: Jamaica National Building Society ("the parent society")]. All the entities are incorporated in Jamaica. The Company is domiciled in Jamaica, its registered office is located at 2-4 Constant Spring Road, Kingston 10 and its principal place of business is located at 26 Trafalgar Road, Kingston 10.

In 2011, the Company obtained a licence from the Financial Services Commission (FSC) to conduct ordinary life insurance business and commenced the underwriting of insurance business in July 2013.

On February 1, 2017, the parent society was converted to a commercial bank, JN Bank Limited. Simultaneously, the ordinary shares of the Company were transferred to JN Financial Group Limited under a court approved scheme of arrangement.

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and comply with the provisions of the Jamaican Companies Act ("the Act").

Details of the Company's accounting policies, including changes during the year are included in notes 28 and 29.

(b) Basis of preparation

The financial statements are prepared under the historical cost convention, modified for the inclusion of available-for-sale investments at fair value, except for those for which a reliable measure of fair value is not available.

(c) Functional and presentation currency

The financial statements are presented in Jamaica dollars, which is the Company's functional currency and expressed in thousands of dollars, unless otherwise stated.

(d) Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Although these estimates are based on management's best knowledge of current events and actions, actual amounts could differ from these estimates.

2. Statement of compliance and basis of preparation (continued)

(d) Use of estimates and judgement (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3.

(e) Where necessary, comparative amounts have been reclassified to conform with changes in the presentation in the current year.

3. Critical accounting estimates and judgments in applying accounting policies

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

The key sources of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements, or which have a risk of material adjustment in the next year, are as follows:

(i) Fair value of financial instruments

In the absence of quoted market prices, the fair value of a significant proportion of the Company's financial instruments was determined using a generally accepted alternative to quoted market prices. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

(ii) Outstanding claims

Outstanding claims comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on historical experience. The loss reserves have been determined by the Company's actuary using the Company's past loss experience and industry data. Amounts recoverable in respect of claims from re-insurers are estimated in a manner consistent with the underlying liabilities.

Management believes, based on the analysis completed by the actuary that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may, ultimately, be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

4. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose responsibility is to carry out an annual valuation of the Company's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuation using the policy premium method, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the insurance policies in force.

The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any directive made by regulatory authorities. The actuary, in his verification of the management information provided by the Company, and used in valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion. An actuarial valuation is prepared annually.

The external auditors have been appointed by the shareholders pursuant to the Jamaican Companies Act to conduct an independent and objective audit of the financial statements of the Company 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 actuary and his report on the Company's actuarially determined policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

5. Cash and cash equivalents

	2017	2016
	$'000	$'000
Certificates of deposit	15,000	-
Bank balances	11,279	9,436
	26,279	9,436

6. Accounts receivable

	2017	2016
	$'000	$'000
Premium receivable	5,970	6,519
Interest receivable	10,030	4,973
IT software prepayment (note 11)	-	32,093
Other receivables	10,184	4,144
	26,184	47,729

JN LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

7. Due from/(to) related entities

These represent accounts with related entities in the ordinary course of business.

		2017 $'000	2016 $'000
(a)	Due from related entities:		
	Due from parent society	-	1,433
	Due from fellow subsidiary	2,624	-
		2,624	1,433
(b)	Due to related entities:		
	Due to parent society	-	3
	Due to fellow subsidiaries	1,735	66
		1,735	69

8. Investments

	2017 $'000	2016 $'000
Loans and receivables:		
Treasury bills	136,164	-
Bank of Jamaica certificates of deposit	23,379	111,512
Corporate bonds	120,000	85,000
	279,543	196,512
Available-for-sale:		
Quoted equities	7,563	-
National Road Operating and Construction Company (NROCC) bond	14,977	15,184
Government of Jamaica (GOJ) benchmark investment notes	242,143	186,313
	544,226	398,009
Maturity profile:		
No specific maturity	7,563	-
Within 3 months	52,494	22,000
3 months to 1 year	177,180	192,934
1 to 5 years	99,777	102,604
5 to 10 years	150,042	80,471
More than 10 years	57,170	-
	544,226	398,009

Investments include $98,847,000 (2016: $90,369,000) held to the order of the Financial Services Commission (FSC) as required by the Insurance Act 2001.

9. Securities purchased under resale agreements

At December 31, 2017 and 2016, collateral held for securities purchased under resale agreements approximated their carrying values, and are due within three months from the reporting date.

JN LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

10. Property, plant and equipment

	Computers	Motor vehicles	Leasehold improvements	Furniture, fixtures & fittings	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
December 31, 2015	385	6,931	2,111	4,795	14,222
Additions	3,666	5,069	149	394	9,278
Disposals	(182)	-	-	(94)	(276)
December 31, 2016	3,869	12,000	2,260	5,095	23,224
Additions	-	-	-	64	64
Reclassified to intangible asset	(3,237)	-	-	-	(3,237)
Disposal	-	-	-	(19)	(19)
December 31, 2017	632	12,000	2,260	5,140	20,032
Depreciation:					
December 31, 2015	143	2,888	1,408	794	5,233
Charge for the year	350	2,409	677	502	3,938
Eliminated on disposals	(145)	-	-	(83)	(228)
December 31, 2016	348	5,297	2,085	1,213	8,943
Charge for the year	206	2,747	84	517	3,554
Reclassified to intangible asset	(180)	-	-	-	(180)
Eliminated on disposal	-	-	-	(8)	(8)
December 31, 2017	374	8,044	2,169	1,722	12,309
Net book values:					
December 31, 2017	258	3,956	91	3,418	7,723
December 31, 2016	3,521	6,703	175	3,882	14,281
December 31, 2015	242	4,043	703	4,001	8,989

11. Intangible asset

	Computer software
	$'000
At cost:	
December 31, 2016	-
Additions *	61,210
Reclassified from property, plant and equipment	3,237
December 31, 2017	64,447
Amortisation:	
December 31, 2016	-
Charge for the year	1,676
Reclassified from property, plant and equipment	180
December 31, 2017	1,856
Net book values:	
December 31, 2017	62,591
December 31, 2016	-

* Additions include $58,142,000 in respect of software development which is still in progress. $32,093,000 of this amount was included as prepayment in the prior year (see note 6).

JN LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

12. Share capital

	2017 $'000	2016 $'000
Authorised and stated capital issued and fully paid:		
1,000 ordinary shares at no par value	1	1

13. Capital reserve

The reserve originally arose from the waiver of an amount payable to the former parent society in 2009. The Board of Directors authorised for the amount to be transferred to retained earnings during the year.

14. Investment revaluation reserve

This represents the unrealised gains, net of losses, on the revaluation of available-for-sale investments.

15. Accounts payable

	2017 $'000	2016 $'000
Due to reinsurers	15,465	10,184
Other payables and accruals	25,943	21,811
	41,408	31,995

16. Policyholders' liabilities

(a) Policyholders' liabilities consist of:

	2017 $'000	2016 $'000
Actuarial reserves	54,824	26,311
Benefit claims payable [see (ii) below]	26,970	16,506
	81,794	42,817

(b) Change in policyholders' liabilities:

	2017 $'000	2016 $'000
(i) Actuarial reserves:		
At the beginning of the year	26,311	13,951
Increase in reserves	28,513	12,360
At the end of the year	54,824	26,311
(ii) Benefit claims payable:		
At the beginning of the year	16,506	5,152
Increase in claims payable	10,464	11,354
At the end of the year	26,970	16,506

16. Policyholders' liabilities (continued)

(c) Actuarial liabilities are computed for the insurance portfolio as follows:

(i) Bulk Creditor Life

Monthly premiums are paid at the end of the month while the risks are incurred during the month. Hence there is no Unearned Premium Reserve. An Incurred but Not Reported (IBNR) reserve is computed by applying a factor to the inforce sum insured at December 31, 2017. The factor used was an average of factors derived for the three calendar years ended December 31, 2017. The factor for 2017 was a ratio derived by determining the total claims reported in 2017 that were incurred prior to December 31, 2016, expressing this amount as a percentage of the inforce sum insured as at December 31, 2017. Similar ratios were computed for calendar years 2016 and 2015. The average of these three ratios was applied to the inforce sum insured as at December 31, 2017. Based on the method used to compute the actuarial reserves, there are no assumptions for mortality, valuation interest rates, lapses or expenses.

(ii) Single Premium Creditor Life

Premiums are paid at issue only. The reserve is determined based on best estimate assumptions for mortality, interest rates, expenses and lapses. The expense assumptions are similar to those used for the product pricing while slightly higher lapse rates are assumed. These assumptions were adjusted by margins of adverse deviation. No experience studies were done as there is a paucity of data.

(iii) Group Life

The monthly premiums for these policies are paid during the month and the risks are incurred during the month. The reserve was established at one month's premium as the product is renewable monthly.

17. Deferred tax liability

Deferred tax liability is attributable to the following:

	2017 $'000	2016 $'000
Property, plant and equipment	(462)	(117)
Interest receivable	2,507	1,243
Accounts payable	(478)	(478)
Unrealised foreign exchange gains	17	103
	1,584	751

JN LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

17. Deferred tax liability (continued)

Movement in temporary differences during the year:

	January 1, 2016	Recognised in profit /loss	December 31, 2016	Recognised in profit/loss	December 31, 2017
	$'000	$'000 [note 20(a)(ii)]	$'000	$'000 [note 20(a)(ii)]	
Property, plant and equipment	(130)	13	(117)	(345)	(462)
Interest receivable	1,053	190	1,243	1,264	2,507
Accounts payable	(165)	(313)	(478)	-	(478)
Unrealised foreign exchange (losses)/gains	-	103	103	(86)	17
	758	(7)	751	833	1,584

18. Administrative expenses

	2017 $'000	2016 $'000
Staff related costs (note 19)	65,749	54,847
Legal and professional fees	36,712	25,443
Director's remuneration [note 24(d)]	7,250	7,250
Marketing	7,806	5,970
Repair and maintenance costs	12,265	3,988
Depreciation and amortisation	5,230	3,938
Travelling and subsistence	695	3,254
Audit fees	3,719	2,912
Policy medicals	2,692	2,623
Contribution to JN Foundation	5,616	2,227
Registration and insurance fees	1,977	2,098
Rent	2,143	1,949
Broker commission	6,723	1,729
Utilities	1,236	1,291
Stationery and printing	1,396	854
Meeting expenses	554	393
Declaration of assets	158	(64)
Postage and courier	450	368
Other expenses	3,434	2,611
Total administrative expenses	165,805	123,681

19. Staff related costs

	2017 $'000	2016 $'000
Salaries	39,109	33,095
Staff incentives	13,772	11,010
Statutory contributions	5,520	4,225
Pension cost [note (27)]	1,857	1,486
Other staff benefits	5,491	5,031
	65,749	54,847

20. Taxation

(a) Taxation is based on profit for the year, as adjusted for income tax purposes, and is made up as follows:

	2017 $'000	2016 $'000
(i) Current tax expense:		
Income tax at 25%	46,560	35,147
Prior year under provision	930	221
	47,490	35,368
(ii) Deferred taxation:		
Origination and reversal of temporary differences (note 17)	833	(7)
Total taxation recognised in profit or loss	48,323	35,361

(b) Reconciliation of effective tax rate

The actual charge differs from the "expected" tax charge for the year as follows:

	2017 $'000	2016 $'000
Profit before tax [see note 20(c)]	187,135	138,658
Computed "expected" tax charge @ 25%	46,784	34,664
Difference between profit for financial statements and tax reporting purposes on –		
Depreciation and capital allowances	545	578
Disallowed expenses	64	(102)
Prior year under provision	930	221
Actual tax charge	48,323	35,361

(c) The effective tax rate for 2017 was 25.82% (2016: 25.50%) of pre-tax profit of $187,135,000 (2016: $138,658,000).

(d) Other comprehensive income

There is no taxation attributable to other comprehensive income.

21. Financial risk management

(a) Overview

The Company has exposure to the following financial risks from its operations and the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

21. Financial risk management (continued)

(a) Overview (continued)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Investment Committee, Conduct Review Committee and Audit Committee, which are responsible for developing and monitoring risk management policies in their specified areas.

The Company's risk management policies are established to identify, assess and measure the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The focus of financial risk management for the Company is ensuring that the Company has adequate economic capital and that the use of and proceeds from its financial assets are sufficient to fund its obligations. The goal of the investment management process is to, within the policy guidelines, optimise the after-tax investment income and total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

A key aspect in the management of the Company's financial risk is through matching the timing of cash flows from assets and liabilities. The Company actively manages its investments using an approach that balances quality, diversification, liquidity and return. The portfolio is reviewed on a periodic basis, as are investment guidelines and limits with the objective of ensuring that the Company can always meet its obligations without undue cost and in accordance with the Company's internal and regulatory capital requirements.

Investment Committee

The Investment Committee recommends to the Board for its approval a written Investment and Loan Policy. The committee reviews investment activities at least six times each year, and ensures that the existing policies comprehensively deal with the management of the Company's investment portfolio and that appropriate limits are being adhered to. The Investment Committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors and outlined in the Investment policy.

Conduct Review Committee

The Conduct Review Committee is a committee of the Board of Directors and has principal responsibility to establish and maintain procedures designed to protect the Company from conflicts of interest with related parties, in compliance with the Insurance Regulations. The Committee meets at least four times per year.

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures. The Audit Committee is assisted by the Group Internal Audit Department which undertakes periodic reviews of risk management controls and procedures, the results of which are reported to the heads of the Group Compliance Department, the Audit Committee and the Board of Directors. The Committee meets at least four times per year.

21. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's investing activities and deposits with other institutions.

Management of credit risk:

The Investment and Loan Policy of the Company sets out the framework within which credit risk is managed. This policy is the responsibility of the Board of Directors, with the principal objectives being to:

(i) Maximize the risk adjusted after tax return on the investment portfolio;

(ii) Manage risk at a level that maintains the Company's capital above regulatory requirements; and

(iii) Maintain sufficient liquidity to settle liabilities as they fall due.

Counterparty credit risk

With the exception of Bank of Jamaica certificates of deposit and Government of Jamaica securities, there is no significant concentration of credit risk related to cash and cash equivalents and investments. Additionally, these assets are held with financial institutions which management regards as reputable and sound. These entities are regularly reviewed and risk rated by the Group's Risk Management Unit of the parent company.

Cash and cash equivalents:

These are held with reputable financial institutions as assessed by the Group's Risk Management Unit and collateral is not required for such accounts as management regards the institutions as strong.

Investment securities and securities purchased under resale agreements:

The investment securities and securities purchased under resale agreements are mainly debt issued or backed by the Government of Jamaica for which risk of default is considered low by regulators. The Company observes the concentration limits as prescribed by the Insurance Regulations. The Company is in compliance with Insurance Regulations, 2001 and the Company's Investment and Loan Policy.

At the reporting date, the maximum exposure is represented by the carrying amount of financial assets shown on the statement of financial position. There was no change in the Company's exposure to credit risk, or the manner in which it manages and measures credit risk.

21. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the potential for loss to the Company arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Liquidity risk is broken down into two primary categories:

(i) *Funding liquidity risk* - the risk that the Company will not be able to meet the expected and unexpected current and future cash flows and collateral needs without affecting either its daily operations or its financial condition; and

(ii) *Asset / Market liquidity risk* - the Company's inability to liquidate assets in an orderly fashion without incurring loss on liquidation. This usually stems from illiquid markets or market disruptions.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed facilities and includes:

- Weekly cash flow projections and close monitoring of cash resources;
- Managing the concentration and profile of debt maturities;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruptions to cash flows; and
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

Assets available to meet liabilities include cash balances. The Company would also be able to meet unexpected net cash outflows by selling securities, should it become necessary.

The carrying amount of the contractual maturities of accounts payable, policyholders' liabilities and due to related entities at the reporting date approximates the contractual cash flow expected, and are due within one year from the reporting date.

There was no change in the nature of exposure to liquidity risk which the Company is subjected to or its approach to measuring and managing the risk during the year.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the Company's assets, the amount of its liabilities and/or the Company's income. Market risk arises in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Management of market risk

For each of the major components of market risk, the parent company has policies and procedures in place which detail how each risk should be monitored and managed. The management of each of these major components of risk and the exposure of the Company at the reporting date to each major risk are addressed below.

21. Financial risk management (continued)

(d) Market risk (continued):

(i) Foreign currency risk

Foreign currency risk is the risk that the value of financial instrument will fluctuate because of changes in foreign exchange rates.

The Company incurs foreign currency risk on transactions that are denominated in currencies other than the Jamaica dollar. The currencies giving rise to this risk are the United States dollar (USD), Great Britain pounds (GBP) and Canadian dollar (CAD). The Company ensures that the net exposure is kept to an acceptable level by monitoring its daily positions against approved limits. At the reporting date, the net foreign currency assets were as follows:

	Balances		Exchange rates	
	2017	2016	2017	2016
	’000	’000	$	$
USD	125	131	124.30	127.96
GBP	3	2	166.19	157.22
CAD	4	2	96.30	95.14

A 4% (2016: 6%) weakening of the Jamaica dollar against the various currencies at December 31 would have increased profit for the year by the amounts shown below. A 2% (2016: 1%) strengthening of the Jamaica dollar against these currencies at December 31, would have had the opposite effect as shown. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	2017		2016	
	2%	4%	1%	6%
	Strengthening	Weakening	Strengthening	Weakening
	$’000	$’000	$’000	$’000
USD	(311)	621	(168)	1,006
GBP	(10)	20	(3)	19
CAD	(8)	15	(2)	11

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Notes to the Financial Statements (Continued)
December 31, 2017

21. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company manages this risk by regularly re-evaluating the yield, duration and modified duration on given financial instruments.

The Company manages this risk by monitoring interest rates daily. Even though there are no formally predetermined gap limits, to the extent judged appropriate, the maturity profile of the financial assets is matched with that of the financial liabilities. Where gaps occur, management expects that its monitoring will, on a timely basis, identify the need to take quick action to close the gap, if it becomes necessary.

The following table summarises the carrying amounts of recognised assets, liabilities and equity to arrive at the Company's interest rate gap based on the earlier of contractual repricing or maturity dates. There were no off-balance sheet financial instruments giving rise to interest rate risk. This interest rate gap is normal within insurance company.

	2017					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 1 year	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	5,533	15,000	-	-	5,746	26,279
Accounts receivable	-	-	-	-	26,184	26,184
Due from related entities	-	-	-	-	2,624	2,624
Securities purchased under resale agreements	-	80,092	-	-	-	80,092
Investments	-	52,494	152,180	331,989	7,563	544,226
Total financial assets	5,533	147,586	152,180	331,989	42,117	679,405
Liabilities						
Accounts payable	-	-	-	-	41,408	41,408
Policyholders' liabilities	-	-	-	-	81,794	81,794
Dividends payable	-	-	-	-	25,000	25,000
Due to related entities	-	-	-	-	1,735	1,735
Total financial liabilities	-	-	-	-	149,937	149,937
On-statement of financial position gap, being total interest rate sensitivity gap	5,533	147,586	152,180	331,989	(107,820)	529,468
Cumulative gap	5,533	153,119	305,299	637,288	529,468	-

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Notes to the Financial Statements (Continued)
December 31, 2017

21. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

	2016					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 1 year	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and cash equivalents	5,368	-	-	-	4,068	9,436
Accounts receivable	-	-	-	-	47,729	47,729
Due from related entities	-	-	-	-	1,433	1,433
Securities purchased under resale agreements	-	89,433	-	-	-	89,433
Investments	-	22,000	192,934	183,075	-	398,009
Total financial assets	5,368	111,433	192,934	183,075	53,230	546,040
Liabilities						
Accounts payable	-	-	-	-	31,995	31,995
Policyholders' liabilities	-	-	-	-	42,817	42,817
Due to related entities	-	-	-	-	69	69
Total financial liabilities	-	-	-	-	74,881	74,881
On-statement of financial position gap, being total interest rate sensitivity gap	5,368	111,433	192,934	183,075	(21,651)	471,159
Cumulative gap	5,368	116,801	309,735	492,810	471,159	-

The Company is exposed to interest rate risk. Investments of $536,663,000 (2016: $398,009,000) have a fixed or variable rate of interest. There are no interest-bearing financial liabilities.

Sensitivity analysis:

Fair value sensitivity for fixed rate instruments:

An increase/decrease in interest rates, using the below scenarios, would adjust reserves and profit or loss by the amounts shown below:

	2017		2016	
	Increase in interest rate	Decrease in interest rate	Increase in interest rate	Decrease in interest rate
J$ denominated instruments	100 basis points	100 basis points	100 basis points	100 basis points
US$ denominated instruments	50 basis points	50 basis points	100 basis points	50 basis points

	2017		2016	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
J$ denominated instruments	(12,475)	13,903	(1,881)	1,980
US$ denominated instruments	(385)	398	(842)	444

21. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments:

An increase/decrease in interest rates, using the above scenarios would adjust reserves and profit or loss by the amount shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2017		2016	
	Effect on profit or loss		Effect on profit or loss	
	Increase	Decrease	Increase	Decrease
	$'000	$'000	$'000	$'000
Variable rate instruments	684	(684)	1,565	(1,565)

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

(e) Equity price risk

Equity price risk arises from available-for-sale equity securities held by the Company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Company's investment strategy is to maximize risk adjusted investment returns.

A 15% (2016: Nil) increase or decrease in the market price at the reporting date would result in an increase or an equal decrease, respectively, in reserves for the Company of $1,135,000 (2016: $Nil).

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements, natural and man-made disasters as well as generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk to achieve the optimal balance between the Company's financial viability and its performance against the requirements of an effective operational risk management framework.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the ultimate parent's Group Risk Management Unit centrally and in daily operations through the senior management team.

21. Financial risk management (continued)

(f) Operational risk (continued)

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- risk policies/guidelines for assisting management to understand the ways in which risks can be measured, managed, identified and controlled;
- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of business continuity programmes including contingency plans, testing and training;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

The Group Risk Management Unit conducts frequent operational risk reviews of business lines in keeping with established policies and is supported with independent reviews undertaken by the Group Internal Audit and Group Compliance. The results of all operational risk reviews are discussed with management and the recommendations and required actions agreed. Summaries of the operational risk reviews are submitted to the Audit Committee, and to the Board of Directors.

There has been no change in the Company's exposure to operational risk or the manner in which it manages the risk during the year.

(g) Capital management

The Company's objectives when managing capital are:

(i) To comply with capital requirements set by the regulators of the insurance industry within which the Company operates;

(ii) To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders; and

(iii) To maintain a strong capital base to support the development of its business.

The Company's main regulator is the Financial Services Commission (FSC) which monitors the capital requirements for the Company.

21. Financial risk management (continued)

(g) Capital management (continued)

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

In implementing current capital requirements, the FSC requires the Company to maintain a minimum capital requirement of $150,000,000.

To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the FSC and dictated by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is a MCCSR of 150%.

The MCCSR for the Company is set out below:

	2017 $'000	2016 $'000
Regulatory capital held	591,720	483,071
Minimum regulatory capital	148,638	106,240
MCCSR Ratio	398.1%	454.7%

There has been no change in the manner in which the Company manages capital during the year.

22. Fair value of financial instruments

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk. Where quoted market prices are not available, the fair values of these instruments have been determined using a generally accepted alternative method.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

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

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

22. Fair value of financial instruments (continued)

(a) Accounting classification and fair values:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, their classification and their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amounts are a reasonable approximation of fair values.

	2017			
	Carrying amount	**Fair value**		
	Available for-sale	Level 1	Level 2	Total
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Investments	264,683	7,563	257,120	264,683

	2016			
	Carrying amount	**Fair value**		
	Available for-sale	Level 1	Level 2	Total
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Investments	201,497	-	201,497	201,497

No items were transferred from one level to another.

(b) Valuation technique

The valuation technique used in measuring fair value in the level 2 hierarchy is detailed below. There were no significant unobservable inputs used.

Type	**Valuation techniques**
US$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer • Apply price to estimate fair value
J$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) • Apply price to estimate fair value

23. Insurance risk management

Risk management objectives and policies for mitigating insurance risk:

The Company's management of insurance risk is a critical aspect of the business.

The primary insurance activity carried out by the Company is the transfer of risk from persons or entities that are directly subject to the risk, by means of the sale of insurance policies. As such, the Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these policies.

(a) Underwriting policy

The Company manages insurance risk through its underwriting policy that includes *inter alia* authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance.

The Company's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applicants.

The Company actively monitors insurance risk exposures both for individual and portfolio types of risk. These methods include internal risk measurement, portfolio modelling and analyses.

The Company seeks to underwrite a balanced portfolio of risks at rates and terms that will produce an underwriting result consistent with its long-term objectives.

The Board of Directors approves the underwriting strategy which is set out in an annual business plan and management is responsible for the attainment of the established objectives.

(b) Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to protect capital resources and to limit its exposure to variations in the projected frequency and severity of losses.

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

Ceded reinsurance results in credit risk. The Company monitors the financial condition of re-insurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors is responsible for setting the minimum security criteria for accepting reinsurance and monitoring the purchase of reinsurance against those criteria and for monitoring its adequacy on an ongoing basis.

23. Insurance risk management (continued)

(c) The terms and conditions and the key factors upon which the timing and uncertainty of future cash flows of life insurance contracts depend are as follows:

Terms and conditions	Key factors affecting future cash flows
The insurance contracts insure human life for death, critical illness or permanent disability over a short duration. Short-duration life insurance contracts protect the Company's customer from the consequence of events such as death or disability that would affect the ability of the customer or his/her dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.	For the contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics (such as AIDS) and wide-ranging lifestyle changes such as eating, smoking and exercise habits resulting in earlier or more claims than expected.

(d) Reinsurance limits

(i) Coverage in excess of these retention limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Company are summarised below:

Type of insurance contract	Retention limit
Group creditor life contract	JMD 7,500,000; USD 51,000; CAD 52,000; GBP 33,000 of coverage per life insured. Treaty limits apply
Group life contract	JMD 3,000,000 of coverage per life insured. Treaty limits apply

JN LIFE INSURANCE COMPANY LIMITED

Notes to the Financial Statements (Continued)
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23. Insurance risk management (continued)

(d) Reinsurance limits (continued)

(ii) The benefits assured distributed by retained amounts and by reinsured amounts are shown below:

	2017		
Band $'000	Total amount $'000	Total amount reinsured $'000	Total amount retained $'000
0 - 1,000	3,968,910	-	3,968,910
1,000 - 2,000	4,006,338	-	4,006,338
2,000 - 5,000	14,457,528	321,236	14,136,292
5,000 - 10,000	29,035,334	5,552,695	23,482,639
10,000 and over	27,523,622	18,254,232	9,269,390
	78,991,732	24,128,163	54,863,569

	2016		
Band $'000	Total amount $'000	Total amount reinsured $'000	Total amount retained $'000
0 - 1,000	2,104,903	-	2,104,903
1,000 - 2,000	3,146,966	-	3,146,966
2,000 - 5,000	13,773,607	259,276	13,514,331
5,000 - 10,000	28,742,362	5,072,031	23,670,331
10,000 and over	22,408,718	14,798,459	7,610,259
	70,176,556	20,129,766	50,046,790

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Notes to the Financial Statements (Continued)
December 31, 2017

24. Related party balances and transactions

(a) Identity of related parties

The Company has a related party relationship with its ultimate parent company, parent company, fellow subsidiaries, directors, associated companies, key management personnel and JN Foundation.

(b) Except those stated separately thereon, the statement of financial position includes balances arising in the ordinary course of business with related parties.

	2017 $'000	2016 $'000
Parent society:		
Cash and cash equivalents	-	6,828
Policyholders' liabilities	-	14,730
Fellow subsidiaries:		
Cash and cash equivalents	5,533	-
Policyholders' liabilities	16,915	-
Other related entity:		
Contribution to JN Foundation	4,993	2,992

(c) The statement of profit or loss and other comprehensive income includes the following income earned from, and expenses incurred in, transactions with related parties in the ordinary course of business:

	2017 $'000	2016 $'000
Ultimate parent company:		
Management fees	(10,750)	-
Parent society:		
Gross premium income	32,916	363,640
Interest expense	-	(18)
Management fees	(739)	(2,954)
Service fees	(7)	(40)
Insurance benefits incurred	-	(156,446)

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Notes to the Financial Statements (Continued)
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24. Related party balances and transactions (continued)

(c) The statement of profit or loss and other comprehensive income includes the following income earned from, and expenses incurred in, transactions with related parties in the ordinary course of business (continued):

	2017 $'000	2016 $'000
Fellow subsidiaries:		
Gross premium income	412,615	10,740
Insurance benefits incurred	(106,498)	-
Management fees	(11,053)	-
Interest income	429	-
Advertising	(386)	-
IT repair	(126)	-
Service fees	(391)	(115)
Legal and professional fees	(9,759)	(480)
Fleet management fees	(419)	(350)
ADVANCE card services	(890)	(832)
Rent and maintenance expense	(5,113)	(4,677)
Other related party:		
Contribution to JN Foundation	(5,616)	(2,227)

	2017 $'000	2016 $'000
(d) Transactions with key management personnel:		
Directors remuneration (note 18)	7,250	7,250
Key management compensation	18,576	13,860

25. Commitment

(a) Lease commitment

The Company leases office space from a fellow subsidiary under the terms of a lease agreement dated August 19, 2016. The lease is for a term of three (3) years and is payable monthly.

The Company is committed to making future lease payments as follows:

	2017 $'000	2016 $'000
Within one year	2,024	1,840
More than one year	1,825	3,849
	3,849	5,689

25. Commitment (continued)

(b) Capital commitment

At December 31, 2017, the Company was committed to capital expenditure of US$587,000 (2016: US$824,000) for the acquisition of computer software, tailored to the Company's specific requirements (note 11).

26. Dividends

Interim dividends of $50,000 (2016: $13,380.69) per share were declared to the parent company (2016: parent society). Of this amount, $25,000 (2016: $Nil) per share was unpaid at the reporting date.

27. Pension scheme

The Company participates in a group defined-contribution pension scheme operated by a fellow subsidiary company.

Employees contribute at a mandatory rate of 5%, but may make additional contributions not exceeding a further 10%. The Company makes matching contributions at the rate of 5% to 10% of pensionable salaries, depending on the employees' years of pensionable service. Contributions to the plan for the year amounted to $1,857,000 (2016: $1,486,000).

28. Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting polices set out in note 29 to all periods presented in these financial statements.

The Company has adopted the following amendments to standards with a date of initial application of January 1, 2017. The details, nature and effect of the changes are as follows:

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

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

28. Changes in accounting policies (continued)

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following (continued):

  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.

  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

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

The adoption of these amendments did not result in any change to amounts recognised, presented and disclosed in the financial statements.

29. Significant accounting policies

Except for changes explained in note 28, the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Accounts payable

Accounts payable are measured at amortised cost.

(b) Accounts receivable

Trade and other accounts receivable are measured at amortised cost less impairment losses [see note 29(j)(vi)].

(c) Cash and cash equivalents

Cash and cash equivalents are measured at cost. They comprise bank balances and short-term, highly liquid investments where original maturities do not exceed three months, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments.

(d) Foreign currency transactions and balances

Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Realised and unrealised gains and losses arising from fluctuations in exchange rates are included in profit or loss.

29. Significant accounting policies (continued)

(e) Taxation

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current income tax is the expected tax payable on the income for the year, as adjusted for tax purposes, using tax rates substantively enacted at the financial year end, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insignificant to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered based on the business plans for the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future profits improves.

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses [see note 29(m)]. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be reliably measured. The cost of day to day servicing of property, plant and equipment is recognised in the profit or loss as incurred.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

29. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Property, plant and equipment, with the exception of artwork, on which no depreciation is provided, are depreciated on the straight-line basis at annual rates to write down the assets to their estimated residual values over their expected useful lives.

The depreciation rates are as follows:

Computers	33⅓%
Leasehold improvements	33⅓%
Office equipment	10%
Furniture, fixtures and fittings	10%
Motor vehicles	20%

The depreciation methods, useful lives and residual values are reassessed at each reporting date.

(g) Insurance contract recognition and measurement

(i) Insurance contracts

Insurance contracts are accounted for in compliance with the recommendations and practices of the insurance industry, and comply with the provisions of the Insurance Act 2001.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Company defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario which would have a discernible effect on the economics of the transactions.

(ii) Insurance receivable and insurance payable

Amounts due from and to policyholders and reinsurers are considered financial instruments to be included in accounts receivable, policyholders' liabilities and accounts payable.

(h) Reinsurance contracts

The Company enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts [see note 29(g)]. Reinsurance does not relieve the originating insurer of its liability.

29. Significant accounting policies (continued)

(i) Revenue recognition

(i) Premium income

Gross premiums are recognised as revenue when due. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue.

(ii) Interest income

Interest income is recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortisation of premium on instruments bought at a premium.

(iii) Realised gains and losses

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

(j) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, securities purchased under resale agreements, due from related entities, investments and accounts receivable. Financial liabilities include accounts payable, due to related entities and policyholders' liabilities.

(i) Classification:

Management determines the classification of investments at the time of acquisition and takes account of the purpose for which the investments were acquired. Investments are classified as loans and receivables and available-for-sale securities.

Loans and receivables are those created or acquired by the Company, with fixed or determinable payments and are not quoted in an active market. Loans and receivables comprise cash and cash equivalents, corporate bonds, certificates of deposit and account receivable.

29. Significant accounting policies (continued)

(j) Financial instruments (continued)

(i) Classification (continued):

Financial investments at fair value through profit or loss are those held for trading or those designated by management and comprise equity and certain debt securities. Such investments are those which the Company manages and makes purchase and sale decisions based on their fair value in accordance with its investment strategy.

Held-to-maturity securities are those with fixed or determinable payment and fixed maturity that the company has the positive intent and ability to hold to maturity. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Non-derivative financial liabilities are classified as other financial liability.

Available-for-sale securities are financial assets that are so designated by the Group.

Available-for-sale investments comprise certain debt and equity instruments.

(ii) Recognition:

The Company initially recognises, securities purchased under resale agreements and debt securities on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(iii) Derecognition:

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

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

29. Significant accounting policies (continued)

(j) Financial instruments (continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liabilities simultaneously.

(v) Measurement:

Financial assets classified as available-for-sale are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, they are measured at fair value. Unrealised gains and losses arising from changes in fair value, except for impairment losses, and foreign currency differences on debt instruments, are recognised in other comprehensive income and presented in investment revaluation reserve in equity [see note 14]. Where fair value cannot be reliably determined, they are stated at cost. Where these securities are disposed of or impaired, the related accumulated unrealised gains or losses are reclassified to profit or loss.

Financial assets classified as at fair value through profit or loss are measured at fair value and changes therein including any interest or dividend income are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

The fair value of investments classified as available-for-sale and at fair value through profit or loss is based on their quoted market bid price at the reporting date. Where a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(vi) Identification and measurement of impairment:

The carrying amounts of the Company's financial assets are reviewed at each reporting date to determine whether there is objective evidence that financial instruments not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows of the asset that can be estimated reliably. If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

29. Significant accounting policies (continued)

(j) Financial instruments (continued)

(vi) Identification and measurement of impairment (continued):

Objective evidence that financial assets (including equity securities) are impaired include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, the disappearance of an active market for a security, adverse changes in the payment status of the borrowers or issuers, indications that a debtor or issuer will enter into bankruptcy or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets. For an investment in an equity instrument, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risks.

In assessing collective impairment, the Company uses historical information of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances and other assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the cumulative loss that has been recognised in the investment revaluation reserve to profit or loss. The cumulative loss that is reclassified is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

29. Significant accounting policies (continued)

(j) Financial instruments (continued)

(vii) Fair value measurement:

'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 in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

29. Significant accounting policies (continued)

(k) Intangible assets

(i) Intangible assets that are acquired by the Company and have finite useful lives, are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure on intangible assets is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortisation is charged to profit or loss on the straight line basis over the estimated useful lives of intangible assets, from the date they are available for use. The estimated useful life is as follows:

Software	3 years

(l) Employee benefits

Employee benefits are all forms of consideration given by the Company in exchange for services rendered by employees. These include current or short term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care; post-employment benefits such as pension.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as an expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave.

A fellow subsidiary provides post-retirement pension benefits to employees who have satisfied certain minimum service requirements. These benefits are accounted for under a defined contribution pension plan and the obligations for contributions are recognised as an expense in the profit or loss as incurred.

(m) Impairment of non-financial assets:

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

29. Significant accounting policies (continued)

(m) Impairment of non-financial assets (continued):

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

(n) Claims

Claims are recorded in profit or loss net of reinsurance recoverable. Charges for provision for claims are recognised in profit or loss based on the estimated liability determined by the actuary.

(o) Securities purchased under resale agreements

Securities purchased under resale agreements ("Resale agreements") are short-term transactions whereby securities are bought with simultaneous agreements to resell the securities on a specified date and at a specified price. Resale agreements are accounted for as short-term collateralized lending and are carried at amortised cost.

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreement, using the effective interest method, and is included in interest income.

(p) Related parties

A related party is a person or entity that is related to the Company.

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

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company.

B) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group of companies (which means that each parent, subsidiary and fellow subsidiary is related to the other).

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

29. Significant accounting policies (continued)

(p) Related parties (continued)

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled, or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of companies of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

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

(q) New and amended standards not yet effective:

A number of new and amended standards were in issue but were not yet effective and which the Company has not early adopted. The Company has assessed the relevance of all such standards and amendments to standards and has determined that the following are likely to be relevant to its operations:

- The Company is required to adopt IFRS 9 *Financial Instruments* from January 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the company does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables, loans, investments in debt securities and securities purchased under resale agreements. However, the company is still in the process of its assessment and the final impact is not yet known.

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- The Company is required to adopt IFRS 9 *Financial Instruments* (continued)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of IFRS 9 impairment model. However, the Company is still in the process of determining the likely financial impact on its financial statements.

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and control changes that it believes will be necessary to capture the required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at January 1, 2018.

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- The Company is required to adopt IFRS 9 *Financial Instruments* (continued)
  - The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
    - The determination of the business model within which a financial asset is held
    - The designation and revocation of previous designations of certain financial assets as measured at FVTPL
    - The designation of certain investments in equity investments not held for trading as at FVOCI.

- The Company is required to adopt IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018. The standard established a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

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

  Based on the Company's preliminary assessment, it has no source of income which currently falls within the scope of IFRS 15 and does not expect the standard to have any material impact of its 2018 financial statements.

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

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

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

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

  (ii) Modifications to financial liabilities:

  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income or initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.
  An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

  The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

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

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

  An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- IFRIC 23, *Uncertainty Over Income Tax Treatments (continued):*

  If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements.

  If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better prediction of the resolution of the uncertainty.

  If facts and circumstances change, the entity is required to reassess the judgements and estimates applied.

  IFRIC 23 reinforces the need to comply with existing disclosure requirements regarding:

  - judgements made in the process of applying accounting policy to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
  - assumptions and other estimates used; and
  - potential impact of uncertainties that are not reflected in the financial statements.

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

- IFRS 17, *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2021, replaces IFRS 4, *Insurance Contracts* and provides three models to apply to all insurance contracts: the general model, the variable fee approach and the premium allocation approach.

  The key principles in IFRS 17 are that an entity:

  - Identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
  - Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
  - Recognises and measures groups of insurance contracts at:

    a) a risk - adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information.

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- IFRS 17, *Insurance Contracts*, (continued)

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

  - Recognises and measures groups of insurance contracts at (continued):

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

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

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

  - Includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts where the coverage period is less than a year or where there are no significant expected changes in estimates before the claims are incurred.

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

  The Company is assessing the impact that the standard will have on its 2021 financial statements.

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

  (i) Temporary exemption from IFRS 9:

  - Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement.*

  - To qualify, a reporting company's activities need to be predominantly connected with insurance.

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

29. Significant accounting policies (continued)

(q) New and amended standards not yet effective (continued):

- Amendments to IFRS 4, *Insurance Contracts*, (continued):

(ii) Overlay approach:

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

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

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