CREDIT RATING REPORT

JMMB Group Limited

CariCRIS
Caribbean Information & Credit Rating Services Limited

September 2020

TYPE OF RATING	RATINGS ASSIGNED		OUTLOOK
Issuer/ Corporate Credit Rating	**Foreign Currency**	**Local Currency**	Stable
	*jm***A**	*jm***A+**	

RATING HISTORY			
Date	**Foreign Currency**	**Local Currency**	**Type of Rating**
September 18, 2020	*jm***A**	*jm***A+**	Issuer/ Corporate Credit Rating
September 19, 2019*	*jm***A**	*jm***A+**	Issuer/ Corporate Credit Rating

** Initial Rating Assigned*

RATING DRIVERS

Supporting Factors

- Strong brand and long history in the Jamaican securities industry and an emerging financial services player in the Caribbean region
- Well-diversified asset portfolio with good asset quality
- Strong financial performance in FY2020 bolstered by the Group's investment in SFC
- Comfortable capitalization, reflected in good capital adequacy ratios
- Robust governance structure and risk management practices

Constraining Factors

- High Cost to Income ratio
- Funding base characterized by moderate concentration in repurchase agreement (repo) instruments which has contributed to asset/liability mismatches and high gearing
- Sluggish economic conditions could constrain growth

Rating Sensitivity Factors

Factors that could lead to an improvement of the Ratings and/ or Outlook include:

- Improvement in the Government of Jamaica's (GOJ) credit rating, leading to an improved overall credit risk profile of the GOJ
- Growth in PAT of 10% for 3 consecutive years

Factors that could lead to a lowering of the Ratings and/ or Outlook include:

- Deterioration of the NPLs to Gross loans ratio to 8% or more
- Deterioration of the CAR of any of the Group's subsidiaries to below the country specific regulatory requirements over a sustained period
- Cost to Income ratio weakens to 75% and over

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COMPANY BACKGROUND

JMMB Group Limited (JMMBGL) is a financial services Group incorporated and domiciled in Jamaica and listed on the Stock Exchanges of Jamaica and Trinidad and Tobago. The company was initially established as Jamaica Money Market Brokers Limited (JMMB) in 1992 by Mrs. Joan Duncan as a joint venture among the National Development Bank, Mutual Security Bank, Jamaica Producers Group Limited, Jamaica Venture Fund and Antrim Limited. JMMB has been a pioneer in the Jamaican securities industry as the first exclusive money market broker and dealer. Over the ensuing years, the Company's operations have expanded and evolved to include 18 subsidiaries and 1 associated company in Jamaica, Trinidad and Tobago (T&T) and the Dominican Republic (Chart 1). In April 2015, a holding company, JMMBGL was formed, under an approved Scheme of Arrangement, as the parent of the Group of companies including JMMB. As of June 2020, JMMBGL's 2 largest shareholders were Proven Investments Limited[1] (20.01%) and Trustees JMMB ESOP (8.83%).

The Group's products and services are offered through 5 main business lines which include investment management[2], commercial banking, insurance brokerage, remittances, and other related services to 352,000 clients in the 3 countries that it serves. JMMBGL's total assets and total revenue stood at J $404.9 billion[3] and J $21.6 billion respectively as at March 2020. Its largest subsidiary, JMMB domiciled in Jamaica, accounted for approximately 52.1% and 51.7%[4] of JMMBGL's total assets and revenue respectively as of March 2020. Over the past 8 years, the Group's focus has been on regional expansion and diversification of its business lines through acquisitions and the development of strategic partnerships. JMMBGL, over the next 5 years, will seek to standardise, centralise and integrate its operations across all entities within the Group, which will serve to improve its operational efficiency. Further, the Group also intends to aggressively grow its commercial banking business line with a view to continue the diversification of its income and reducing the cost of its funding.

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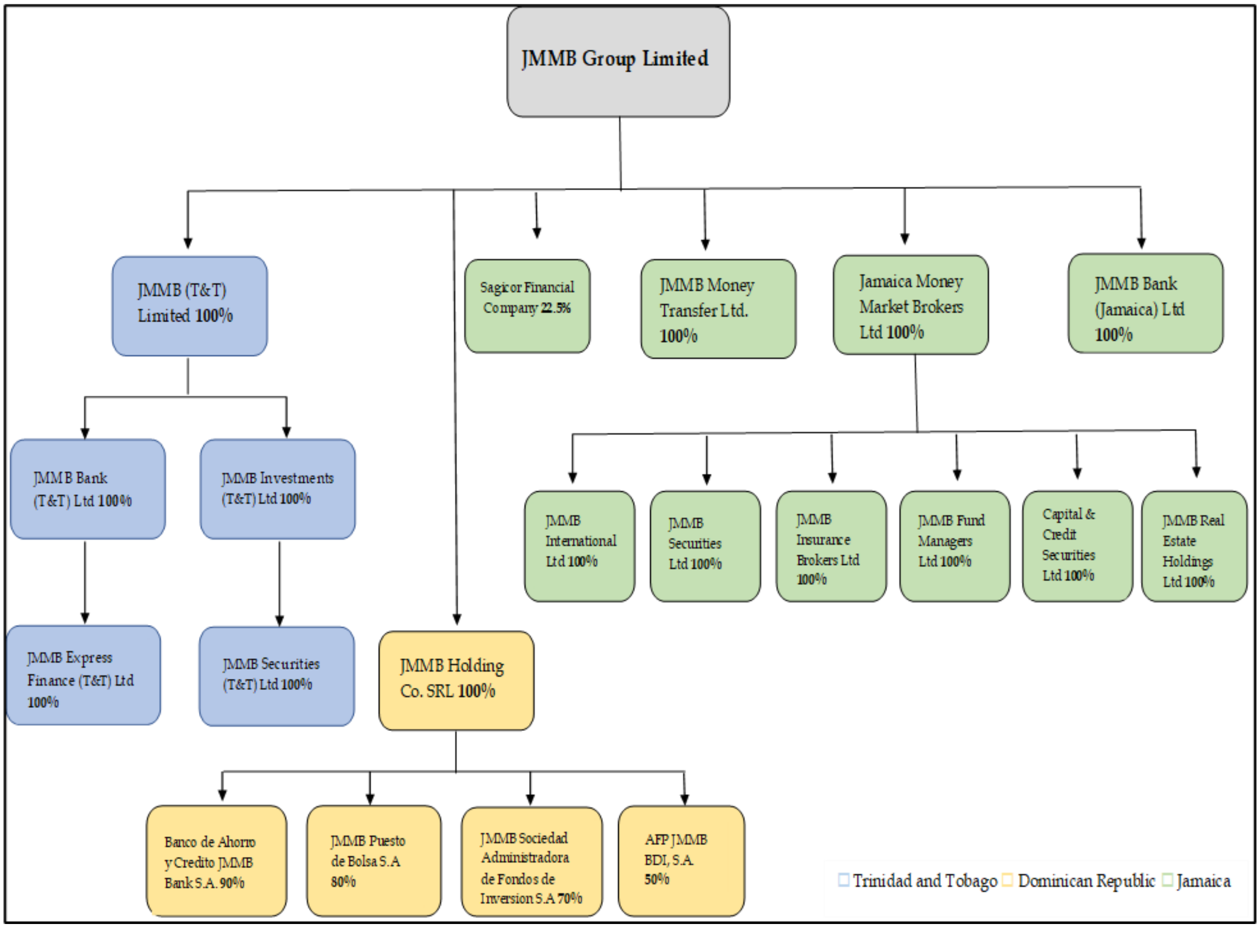
1 *Proven Investments Limited is a public investment firm. The Company's primary activities include the holding of tradeable securities for investment purposes and holding private equity investments in small and medium sized companies throughout the region with significant potential for medium term growth.*

2 *Investment management includes asset management services i.e. on and off-balance sheet solutions, treasury, cambio, fixed income and equities trading and capital market services. On-balance sheet solutions include mutual funds and off-balance sheet solutions include collective investment schemes, pension funds and unit trusts.*

3 *Total assets have been adjusted to exclude intangible assets, unrealized gains/(losses) and contingencies.*

4 *On a consolidated basis.*

Chart 1
JMMBGL Corporate Structure as at March 2020



Source: JMMBGL

Consistent with its regional expansion efforts, in May 2019, JMMBGL announced its commitment to invest a minimum of US $200 million in Alignvest Acquisition ll Corporation (AQY)[5]. AQY and Sagicor Financial Corporation[6] entered into an Arrangement in which AQY acquired all of the shares in Sagicor Financial Corporation by way of a scheme of arrangement. This arrangement was finalised on December 5, 2019 and a new entity, Sagicor Financial Company Limited (SFC) was incorporated and listed on the Toronto Stock Exchange. JMMBGL now owns 22.5% of the shareholding of SFC, making it a new associated company of JMMBGL.

[5] *AQY is a publicly traded Special Purpose Acquisition Corporation that is listed on the Toronto Stock Exchange.*

[6] *Sagicor Financial Corporation is a leading financial services provider in the Eastern Caribbean, Trinidad and Tobago and Jamaica with growing presence as a provider of life insurance products in the United States. SFC is currently rated Cari**AA**.*

RATIONALE

Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the issuer/corporate credit ratings of *jm***A+** (Local Currency Rating) and *jm***A** (Foreign Currency Rating) on the Jamaica national scale to JMMB Group Limited (JMMBGL or the Group). These national scale ratings indicate **good** creditworthiness of JMMBGL compared to other obligors in Jamaica.

CariCRIS has also maintained a **stable** outlook on the ratings. The stable outlook is premised on CariCRIS' expectation that despite the negative impact of the coronavirus (COVID-19) on economic activity in Jamaica and the wider Caribbean region, the Group's financial performance will continue to be good over the next 12-15 months, bolstered by its increased market presence in the Caribbean through its recent 22.5% acquisition of Sagicor Financial Company Limited (SFC) and the Group's continued push towards standardisation and branch integration initiatives, that underpins growth and operating efficiencies.

The factors supporting the ratings are:

Strong brand and long history in the Jamaican securities industry and an emerging financial services player in the Caribbean region

JMMBGL's largest subsidiary, Jamaica Money Market Brokers Limited (JMMB), which contributes over 50% to total revenue, was established in 1992, and was the first money market broker and dealer in Jamaica. The Group has since evolved into a regional financial services player in Jamaica, Trinidad and Tobago (T&T) and the Dominican Republic (DR), with a total of 19 subsidiaries and 1 associated company[7] offering a comprehensive suite of products and services along 5 lines of business, comprised of investment management[8], commercial banking, insurance brokerage, remittances, and other related services. Its long history in the Jamaican securities industry, well-known brand and effective distribution channels that include a network of 22 branches across its 3 territories of operation and online distribution, have enabled the Group to build a diverse client base of approximately 352,000 customers[9]. The Group's collective

[7] *On December 5, 2019 JMMBGL acquired a 22.52% stake in Sagicor Financial Company Limited (SFC) making it an associate company.*

[8] *Investment management includes asset management services i.e. on and off-balance sheet solutions, treasury, cambio, fixed income and equities trading and capital market services. On-balance sheet solutions include mutual funds and off-balance sheet solutions include collective investment schemes, pension funds and unit trusts.*

[9] *As at March 2020.*

investment schemes (CIS) represented approximately 12.4%[10] of the total CIS market in Jamaica and the Group is considered to be the 4th largest unit trust provider in Jamaica based on funds under management (FUM)[11]. JMMB recorded a total asset base of J $211 billion[12] as of March 2020, accounting for approximately 33.5%[13] of total assets in the Jamaican securities industry. The investment management market share for its DR operations presently stands at 16%, while its T&T operations is very small, with assets under management accounting for less than 5% of the total market.

Since its acquisition of Intercommercial Bank Limited in T&T in 2012, the Group's commercial banking operations have grown to become its second largest line of business, behind investment management, contributing 33.5% of total Group revenue for the period ended March 2020. In August 2017, the Group entered the Jamaican commercial banking market with the establishment of JMMB Bank (Jamaica) Limited and has since grown this entity's assets by around 83% as of March 2020 compared to March 2018 well above the average growth of approximately 12% for the commercial banking industry in Jamaica. As of March 2020 the Jamaican banking operations of JMMBGL accounted for 62% of the Group's total loan portfolio and 50% of deposits, with Trinidad and Tobago accounting for 34% and 44% of loans and deposits respectively, and the DR accounting for the remaining 4% of loans and 6% of deposits. Notwithstanding these growth accomplishments, the Group's presence in the commercial banking industry is still small, with its share of loans and deposits as of March 2020 being less than 10% of each territory's market.

In 2019 JMMBGL embarked on a strategic project which aimed to standardise the Group's technology, processes, and systems across all its subsidiaries. This project consists of several standardisation and branch integration initiatives that commenced during the year, including the implementation of a single core banking solution across the entire Group, namely T24, that is currently being rolled out in the DR and T&T. The Group is also continuing to focus on building out its suite of products, and have completed the roll-out of its Visa Debit Card and ATM networks, and are currently exploring credit card and point of sale solutions in the Jamaican, T&T and DR markets.

With such an extensive reach and number of well positioned subsidiaries, that give the Group a competitive advantage and footprint, JMMBGL continues to make strides towards being one of

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[10] *Source: JMMBGL.*

[11] *Source: Financial Services Commission (FSC); 4th behind Sagicor Investments Jamaica Limited, Scotia Investments Jamaica Limited and NCB Capital Markets Limited.*

[12] *Total assets have been adjusted to exclude intangible assets, unrealized gains/(losses) and contingencies; reported on a consolidated basis.*

[13] *FSC – JMMB as a Percentage of the Total Securities Industry Assets as at 31 March 2019.*

the top financial services entities in the Caribbean. This is further bolstered by the successful acquisition that took place in the last financial year on December 5th, 2019 when JMMBGL was able to successfully complete its investment[14] in Alignvest Acquisition II Corporation (AQY)[15] which saw the acquisition of a 22.5% ownership of Sagicor Financial Company Limited (SFC)[16].

CariCRIS is of the view that this acquisition not only enhances JMMBGL's long term profitability but also its market reach into new jurisdictions and builds brand awareness in the insurance, banking, and asset management sectors through its partnership with SFC.

Well-diversified asset portfolio with good asset quality

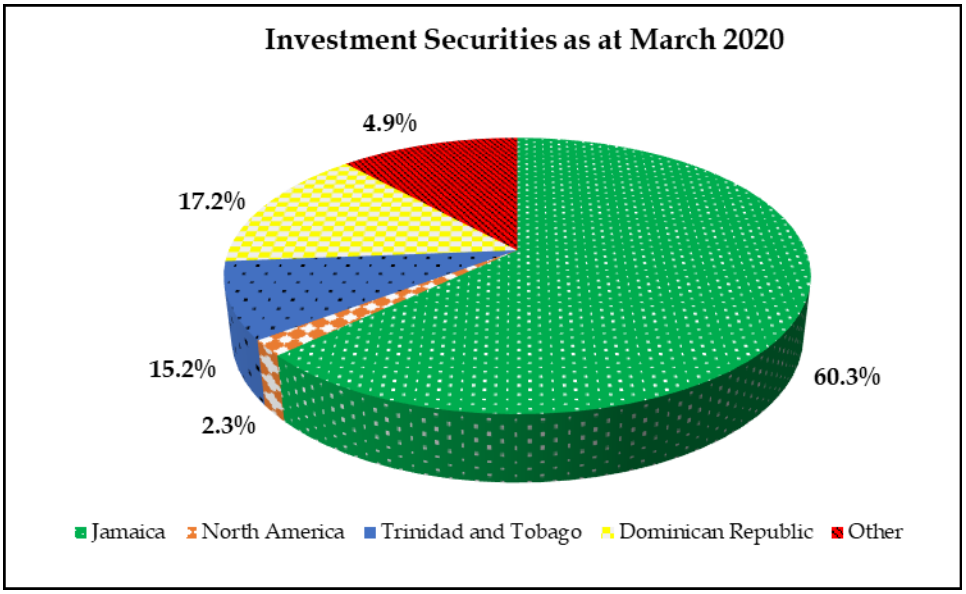
JMMBGL's earning asset base as of March 2020 comprised of investment assets (63%), net loans and advances (25.8%) and cash holdings (11.2%). The Group's investment portfolio, though still dominated by exposure to Jamaica and Jamaican securities, has achieved a notable level of diversification over the years, both by country (Chart 2) and issuer type (Table 1). As of March 2020, the investment portfolio consisted primarily of fixed income securities (97%), relatively unchanged from the prior year, with a good mix of sovereign and corporate investments with GOJ securities accounting for approximately 41.5% of the total investment portfolio, down from 51.8% the prior year. The overall credit quality of the portfolio is good, with approximately 98.3% of the portfolio being of investment grade on the CariCRIS regional rating scale (*Cari***BBB-** and above). All exposures by asset class, issuer type and source country remained well within the limits of each subsidiary's investment policy and each territory's regulatory requirements. Foreign currency risk is considered minimal given that there is generally a natural currency hedge in that US $ investments are backed by US $ funding.

[14] *Funding was obtained via the selling off of some of the Group's investment portfolio and J $12 billion that was successfully raised from an APO done during the financial year.*

[15] *AQY was a publicly traded Special Purpose Acquisition Corporation that is listed on the Toronto Stock Exchange and was renamed SFC as at December 2019*

[16] *SFC through its subsidiaries, offers individual life, health and annuity products, group life and benefits administration, banking and investment management services, and property and casualty insurance.*

Chart 2
Geographical Breakdown of Investment Securities as at March 2020



Source: JMMBGL 2020 Annual Report

Table 1
Composition of Investments by Issuer Type - March 2018 to 2020

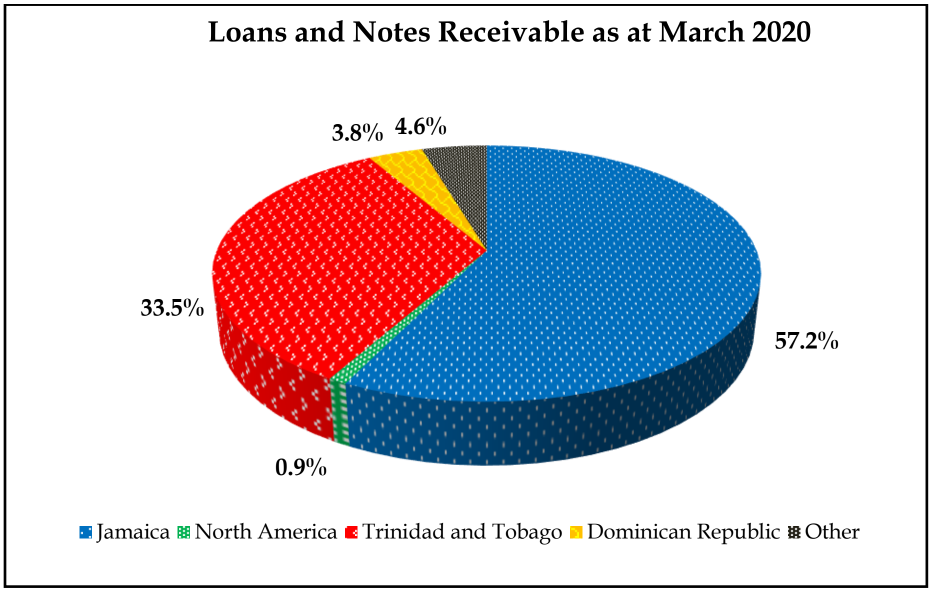
Investment by Asset Class	Mar-20	Mar-19	Mar-18
Government of Jamaica Securities	41.50%	51.80%	58.00%
Certificate of Deposits	6.63%	5.40%	4.60%
Sovereign & Corporate bonds	49.56%	41.30%	35.50%
Other*	2.32%	1.50%	1.90%
Total	100.00%	100.00%	100.00%

Source: JMMBGL 2020 Annual Report

** Other includes quoted equities, unit trust holdings and interests in pooled money market funds, for which there are no fixed maturity dates.*

The Group's loans and notes receivable portfolio is also well diversified geographically (Chart 3), and there is a good spread amongst borrower type with corporates accounting for 45.5% of the total loans and notes receivable portfolio, individuals (49.3%) and other financial institutions (5.2%).

Chart 3
Geographical Breakdown of Loans and Notes Receivable as at March 2020



Source: JMMBGL 2020 Annual Report

The Group's loan portfolio/asset quality, as measured by the ratio of non-performing loans (NPLs) to gross loans, remained relatively stable at 5.6% as at March 2020[17]; below its 3-year average of 6.4% but higher than the Jamaican commercial banking industry average of 2.4%[18]. Latest information made available (March 2020), indicates that the Group's asset quality for both its Jamaican and Dominican Republic operations remained good at approximately 2.6% and 2.5% notwithstanding the negative impact of the Covid-19 pandemic, while its T&T asset quality (NPLs to gross loans) level stood at approximately 5.9%, reflective of T&T's challenging economic environment and above the NPL ratio of 3.1% for the banking sector in T&T. The Group, however, continues to be prudent in provisioning with loan loss provision coverage of NPLs increasing to 53.7% as at March 2020, up from 49.3% as at March 2019.

JMMBGL's total assets grew by 28.1% year-on-year (y-o-y), led by the Group's finalization of the Alignvest transaction. This saw JMMBGL, through its 22.5% acquisition of SFC, increase its asset base by J $35 billion. The acquisition along with a 45.5% increase in loans and notes receivable, drove a 17.8% rise in the investment portfolio and this accounted for the increase in the asset base. The growth in the loan portfolio reflected increases of J $16 billion and J $10 billion in loans done

[17] *The Group NPL ratio also includes a J $2.3 billion portfolio of NPLs held by CCSL, a special purpose company created for the purpose of holding NPLs obtained as a result of the Group's acquisition of Capital and Credit Merchant Bank. These NPLs represent around 3% of the Group's total loan portfolio and efforts to collect the outstanding balances are ongoing.*

[18] *Source: Bank of Jamaica Prudential Indicators, March 2020.*

for individuals and corporates, respectively. Despite the growth in the loan portfolio, JMMBGL's total asset base, which stood at J $404.9 billion as at March 2020, is among the smallest in CariCRIS' sample of regional financial services groups.

JMMBGL adopted IRFS 9[19] in 2018 with the aid of a consultant and developed an expected credit loss model which was approved by its external auditor. The adoption of IFRS 9 has not resulted in a material increase in impairment levels for both its investment and loan portfolios. Given the challenging economic climate and the negative impact of the COVID-19 pandemic, CariCRIS expects that the Group's asset quality (NPLs) will likely deteriorate to around 6% over the next 12 – 15 months. With unemployment rates rising to record highs globally and regionally, and despite the Group not experiencing any material negative impact to date, CariCRIS is cognizant of the lagged effect of the pandemic and the strain it can bring to the Group's portfolio in the coming year. In the interim, to temper the impact of these challenges, JMMBGL is closely monitoring the quality of its loan portfolio with moratoriums being granted where needed.

Strong financial performance in FY2020 bolstered by the Group's investment in SFC

For the financial year ended March 2020, JMMBGL reported its highest profit after tax (PAT) since its existence, with PAT growing by 82.7% to J $7.1 billion from J $3.9 billion in the prior year. The growth in PAT was driven significantly by a J $2.8 billion, one off gain on the acquisition of the shareholding in Sagicor Financial Company Limited (SFC)[20]. With this acquisition the Group would have benefitted from the purchase of 33,213,764 common shares of SFC at a discounted price. The acquisition should serve to further diversify the Group's income stream by way of share of earnings and dividends while improving the Group's earning potential.

The growth in PAT was also supported by an 18.9% uptick in total income, with net interest income (NII), which contributed approximately 43% of total income, up by 5% to J $9.3 billion. The rise in NII reflected a 12% increase in total interest income which was tempered by a 19.1% expansion in interest expense to J $10.4 billion. The increase in total interest income was primarily on account of growth in both its investment and loan portfolios of 17.8% and 45.5% respectively in FY2020. The sharp increase in interest expense was as a result of a 23% increase in the Group's

[19] *IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument and to provide upfront for expected credit losses for its loans and debt securities.*

[20] *Barring this transaction and excluding any potential income earned from the funds utilised for the SFC acquisition, PAT would have increased by 5.6% to J $4.1 billion.*

funding base following the issuance of an additional J $15.7 billion in repurchase agreements and J $8.1 billion in notes payable, as well as a J $40.2 billion increase in customer deposits during the year. The growth in the Group's funding base, which surpassed the rise in interest expense led to funding costs remaining stable at 3.3%. Asset yields however declined marginally to 5.7% from 6.1% previously and the Group's net interest spread also compressed to 2.4% compared to 2.8% in the prior year, below the average of 3.0% for CariCRIS' sample of regional financial services group. Non-interest income, which contributed 57% to total income in FY2020, grew by 32.2% to J $12.3 billion. The increase in non-interest income reflected increases of 39.6% and 37.1% in investment trading income and fee-based income, respectively. JMMBGL's income growth is spread across its 5 business segments (Table 3) with its two largest business lines, investment management and banking accounting, for 64.9 % and 33.5% respectively of total revenue as of March 2020.

Table 2

JMMBGL's Summary Financial Performance for FY2018-FY2020

	Mar-20	% Chg	Mar-19	% Chg	Mar-18	3-Yr Avg
			J $'million			
Investments	240,820	17.8	204,348	4.9	194,763	213,310.3
Net Loans and Advances	98,841	45.5	67,947	22.2	55,626	74,138.0
Provisions for Losses	(3,038)	63.9	(1,854)	40.3	(1,321)	(2,070.9)
Total Earning Assets	382,297	26.2	303,021	8.9	278,226	321,181.5
Total Assets [a]	404,936	28.1	316,165	9.6	288,360	336,487.1
Customer Deposits	104,183	62.9	63,947	22.6	52,165	73,431.8
Total Interest Bearing Liabilities	346,188	23.0	281,431	9.9	256,086	294,568.2
Tangible Net Worth (TNW) [b]	44,941	71.6	26,194	6.7	24,556	31,897.0
Total Interest Income	19,694	12.0	17,584	10.7	15,879	17,719.0
Interest income from loans	7,118	29.2	5,507	18.4	4,650	5,758.1
Interest income from securities	12,576	4.1	12,076	7.5	11,230	11,960.8
Interest Expense	(10,414)	19.1	(8,745)	7.5	(8,139)	(9,099.2)
Net Interest Income	9,280	5.0	8,838	14.2	7,741	8,619.8
Total Income	21,572	18.9	18,136	13.8	15,935	18,547.8
Operating Expenses	(15,930)	22.6	(12,989)	15.6	(11,240)	(13,386.4)
Profit After Tax (PAT)	7,066	82.7	3,868	7.3	3,604	4,846.4
				%		3-Yr Avg
Total Asset Yield	5.7		6.1		6.1	6.0
Funding Costs	3.3		3.3		3.4	3.3
Net Interest Spread	2.4		2.8		2.7	2.6
ROA	2.1		1.3		1.4	1.6
ROE	19.9		15.2		15.4	16.8
ROCE	2.2		1.8		1.8	1.9
Cost-Income	69.1		68.0		66.9	68.0
NPL ratio	5.6		5.4		8.3	6.4
				Times		3-Yr Avg
Debt/TNW	7.7		10.7		10.4	9.6

Source: JMMB Group Annual Reports

Financial Year runs from April 1 to March 31

[a] *Total assets have been adjusted to exclude intangible assets, unrealized gains/(losses) and contingencies*

[b] *Tangible net worth has been adjusted to exclude intangible assets and unrealized gains/(losses)*

With strong growth in JMMBGL's asset base, led by the J $35 billion gained from the SFC shareholding acquired, return on assets (ROA) and return on equity (ROE) both grew to 2.1% and

19.9% respectively; however they remained below the ROA and ROE averages of 3.2% and 25.5% respectively for CariCRIS' sample of regional financial services groups.

Table 3
Percentage Contribution of Business Lines to Total Revenue for the years ending March 2018 to March 2020

Business	2020	2019	2018
	As a % of Total Revenue		
Investment Management	64.86%	65.50%	70.70%
Banking	33.50%	33.00%	28.20%
Remittance	0.98%	0.80%	0.50%
Insurance Brokerage	0.66%	0.70%	0.60%
Other Related Services	0.00%	0.01%	0.02%
Total	100.00%	100%	100%

Source: JMMB Group Audit FS note 5 pg. 26 and FS JMMBIB and JMMBMTL 2020

For the 3 months ended June 2020, the Company recorded a 30.2% decline in PAT to J $0.8 billion from J $1.1 billion for the same period last year, despite continued growth in earning assets (Table 4). Total Income fell by 14.5% to J $5 billion from J $5.8 billion, due to a decline of 29% in non-interest income for the period to J $2.6 billion from J $3.6 billion for the corresponding period in the prior year, caused mainly by a reduction of 39% in trading income earned. Additionally, a 26.5% rise in interest expense offset an 18.8% rise in total interest income. The growth in interest expense was due to increased customer deposits during the period, while the rise in interest income reflected increases in the overall loan and investment portfolios with the Company's net loans and advances up 38.2% y-o-y to J $101.6 billion as of June 30, 2020.

Total operating expenses fell by 3.4% during the 3 months ended June 2020 as a result of prudent expense management. Due to the decline in total interest income the Group reported a contraction in its net interest spread to 0.6% from 1.2%, and its asset yield to 1.5% from 2.7%. Likewise, the reduction in earnings for the 3-month period saw ROA and ROE contract to 0.2% and 2.1% respectively, having previously been 0.6% and 7.6% respectively for the comparable period of the prior year.

Table 4

JMMBGL's Interim 3-month Period Summary Financial Performance 2019-2020

	Jun-20	% Chg	Jun-19	Average
	J $'million			
Investments	249,069	14.4	217,749	73,513.3
Net Loans and Advances	101,608	38.2	73,513	4,716.3
Total Earning Assets	407,311	21.2	336,034	347,935.2
Total Assets [a]	430,080	23.6	347,935	76,364.4
Customer Deposits	108,900	42.6	76,364	307,070.2
Total Interest Bearing Liabilities	369,962	20.5	307,070	29,340.4
Tangible Net Worth (TNW) [b]	44,240	50.8	29,340	4,596.2
Total Interest Income	5,461	18.8	4,596	5,028.4
Interest Expense	(3,037)	26.5	(2,401)	(2,718.6)
Net Interest Income	2,424	10.4	2,196	2,309.9
Total Income	4,999	(14.5)	5,844	5,421.2
Operating Expenses	(3,712)	(3.4)	(3,844)	(3,777.9)
Profit After Tax (PAT)	780	(30.2)	1,119	949.4
	%			**Average**
Total Asset Yield	1.5		2.7	2.1
Funding Costs	0.9		1.6	1.2
Net Interest Spread	0.6		1.2	0.9
ROA	0.2		0.6	0.4
ROE	2.1		7.6	4.9
ROCE	0.3		1.2	0.8
Cost-Income	74.3		65.8	70.0
	Times			**Average**
Debt/TNW	8.4		10.5	9.4

Source: JMMB Group Unaudited Three Month Reports

Financial Year runs from April 1 to March 31

[a] *Total assets have been adjusted to exclude intangible assets, unrealized gains/(losses) and contingencies*

[b] *Tangible net worth has been adjusted to exclude intangible assets and unrealized gains/(losses)*

Given the challenging economic conditions and the heightened levels of uncertainty due to the ongoing Covid-19 pandemic, CariCRIS expects the Group's profitability to decline in FY2021, consistent with its YTD performance. We expect that any dividend income from the Group's shareholding in SFC, this being the first full year of dividends, may likely be offset by an increase in expected credit losses. We project a PAT of the order of J $4.2 billion in line with last year's profit when adjusted for the one-off gain.

Comfortable capitalization, reflected in good capital adequacy ratios

As of March 2020, all regulated companies within the Group reported good capital adequacy ratios (CAR)[21] which were all well above the regulatory minimum for each jurisdiction (Table 4). Capital adequacy is monitored monthly by the Group's management based on the guidelines developed by Jamaica's Financial Services Commission (FSC), Bank of Jamaica (BOJ), regulators in T&T and DR, as well as the Group's Risk Management Unit. JMMBL, the largest subsidiary, reported a CAR of 14% as of March 2020, above the 10% regulatory minimum requirement, though at a reduced level compared to one year earlier. Due to the Group's prudential capital management policies all entities were able to remain above their regulatory minimums with the adoption of some of the revised Basel II and Basel III requirements, though at lower levels generally from one year earlier. Additionally, the Group has the flexibility to increase its capital through the stock markets in Jamaica and T&T if required. In August 2019, the Group announced its intention to issue up to 325,000,000 additional ordinary shares to raise new capital. The Group was able to successfully raise J $12 billion which was used to fund expansion activities locally and regionally.

Table 4
Capital Adequacy Ratios

Name of Company	Regulatory Minimum (% or $ figure where Applicable)	Entity Capital Adequacy as at March 31 2020	Entity Capital Adequacy as at March 31 2019	Entity Capital Adequacy as at March 31 2018
Jamaica Money Market Brokers Limited	10%	14%	24%	16%
JMMB Securities Limited	10%	37%	54%	37%
JMMB Express Finance (T&T) Limited	10%	19%	62%	185%
JMMB Bank (Jamaica) Limited	10%	13%	13%	16%
JMMB Fund Managers Limited	10%	74%	64%	71%
JMMB Puesto de Bolsa, S.A	RD $153 million	RD $1.23 billion	RD $1,386.7 million	RD $1,010.9 million
Banco de Ahorro y Credito JMMB Bank Sa	10%	17.0%	23.2%	13.3%
JMMB Sociedad Administradora de Fondos de Inversion	RD $15 million	RD $31.6 million	RD $24.3 million	RD $30.3 million
JMMB Bank (T&T) Limited	10%	16%	20%	23%

Source: JMMBGL 2019 Annual Report.
RD $ - The Dominican peso is the currency of the Dominican Republic.
n.a - not available

As of March 2020, JMMBGL's tangible net worth (TNW) stood at J $44.9 billion, up 71.6% from J $26.2 billion in the prior year, due mainly to the additional share capital raised from the issuance

[21] *CAR is measured by total regulatory capital to the risk-weighted assets.*

of the 325,000,000 ordinary shares. Although the Group's TNW is the smallest in our peer group when compared to other large financial groups in the region, it provides adequate coverage of total assets at 11.1% as of March 2020, which is higher than the Financial Services Commission's (FSC) minimum of 6%. CariCRIS expects all companies within the Group to remain well capitalized over the next year, barring any major systemic events.

Robust governance structure and risk management practices

JMMBGL, its subsidiaries and affiliates are governed by a corporate governance policy which provides the corporate governance structures and principles to which the Group must adhere. The policy promotes the effective functioning of the Boards of each entity and ensures the companies in the Group satisfy the governance requirements of regulators in the countries in which they operate. The Group's 16-member Board of Directors (BOD), whose members are well known and respected professionals in the Caribbean region, has ultimate responsibility for the Group's risk management framework. The Group's BOD and the respective sub-committees of the Board[22] have overall responsibility for the subsidiaries' Boards and their sub-committees, and an enterprise wide approach towards the governance of its subsidiaries is deployed which supports its robust governance structure.

The Group's risk policy formally outlines the risk management approach of the overall Group which continues to be guided by legislative and operational frameworks. The framework employs methodologies to proactively identify, quantify and manage all types of risks[23] utilizing international best practices. The Group's Risk Committee is directly supported by other committees within the Group which include Risk Management, Credit Management and Asset Liability Management committees which monitor the risk exposures of the Group and its subsidiaries against the limits set by the Risk Committee in keeping with the Group's stated risk appetite. JMMBGL has also taken a strong stance in abiding with Anti-Money Laundering /Counter Financing of Terrorism (AML/CFT) regulations. Each territory is in full compliance with the respective regulators[24], and this ensures the necessary frameworks are in place to maintain good correspondent financial services relationships.

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[22] *Committees of the Board include Audit, Risk, Nominations, Corporate Governance, Information Systems, Finance and Culture & Human Development.*

[23] *These risks include market, credit, liquidity and operational.*

[24] *Its Jamaica subsidiaries abide by the Bank of Jamaica and the Financial Services Commission; Trinidad and Tobago entities comply with the Central Bank of Trinidad and Tobago as well as the Securities and Exchange Commission and the Dominican Republic entities comply with all three regulatory boards i.e. Central Bank of Dominican Republic (Future), Superintendencia de Bancos de la Republica Dominicana, Superintendencia de Pensiones de la Republica Dominicana (SIPEN)*

As the Group actively undertakes its standardization, centralization and branch integration initiatives across all companies, its risk policies at the Group level are updated accordingly. In November 2019 JMMBGL implemented the use of CreditLens by Moody's[25] to further bolster its financial analysis activities, as this system provides for the consolidation of all commercial data for the standardization of operations across its business functions. JMMBGL is also transitioning to the use of Bloomberg's[26] Multi Asset Risk Solution (MARS)[27], which allows the Group to monitor and assess intraday and end-of-day risk exposures, hedge its portfolio effectively and deliver on-demand risk reporting to comply with the demands of an evolving regulatory landscape.

CariCRIS is of the opinion that this robust ERM framework supports the Group's brand equity, revenue generation, sustainability, and its regional expansion effort. Additionally, in CariCRIS' opinion, the existing corporate governance and risk management frameworks implemented are adequate for the Group's operations and will aid in the Group's navigation through the challenging economic conditions brought about by the Covid-19 pandemic.

These rating strengths are tempered by:

High Cost to Income ratio

JMMBGL's cost to income ratio deteriorated marginally to 69.1% in the year ended March 2020, compared to 68% in the prior year, above its 5-year average of 66.8%, and higher than CariCRIS' regional peer sample of financial services companies of 61.7%. This we believe is an outcome of the Group's strategy over the years to expand and build out its regional financial services business model. Total operating expenses consistently increased every year for the last 5 years at an average annual growth rate of 16.2%, rising to J $15.9 billion in FY2020. For the year ended March 2020, total operating expenses grew by 22.6% due to a one-off increase in staff cost and variable compensation during the year. JMMBGL hired temporary staff for projects undertaken during the financial year, all towards the harmonization and growth of the Group's business lines, digital channels, and standardization of processes. Improvement in the Group's results and

[25] *Moody's is a global risk assessment firm that assists organizations to make sound decisions through its data, analytical solutions and insights that identify opportunities and manage the risks of doing business.*

[26] *A privately held financial, software, data, and media company.*

[27] *This is expected to be implemented by September 2020.*

an increase in staff complement fostered an increase in variable compensation that further pushed expenses upwards.

The Group has placed priority on managing its operational efficiencies largely through digitization and the implementation of its standardization and process improvement project, which entails the deployment of a single core banking platform (T24). We believe these initiatives should boost JMMBGL's efforts to control its operating costs on a sustained basis in the medium-term.

Funding base characterized by moderate concentration in repurchase agreement (repo) instruments which has contributed to asset/liability mismatches and high gearing

As of March 2020, JMMBGL's total interest-bearing liabilities grew by 23% to J $346.2 billion from J $281.4 billion in the prior year. The Group's funding is comprised mainly of repurchase agreements (repos), customer deposits and notes payable representing 51.9%, 35.1% and 13% respectively of total interest-bearing liabilities as of March 2020. JMMBGL has made considerable strides in reducing its exposure to repurchase agreements over the years, from a high of 75.6% as at March 2015[28], however its funding base is considered to be moderately skewed towards higher risk short term repurchase agreements.

This funding structure has resulted in JMMBGL reporting a moderately high liquidity gap in the 'within 3 months' bucket (of about J $128.9 billion), which accounted for 31.8% of its total assets as of March 2020. Notwithstanding this, CariCRIS expects JMMBGL to continue to adequately meet its short-term obligations as they come due, as the Group and its entities have adequate cash and investment holdings. Further, the Group can access margin funding from its overseas brokers using available securities, and also has J $1.2 billion, TT $22.8 million, US $ 47.5 million and RD $1.9 billion in contingency funding lines which serves as liquidity buffers.

Jamaica's Financial Services Commission (FSC) identified the mismatch between retail repo liabilities and long-term securities as a vulnerability of securities dealers to interest rate and

[28] *Under the current International Monetary Fund (IMF) Agreement, one of the primary objectives of the Government's Financial Sector Reform Programme is to reduce the level of risk associated with the Retail Repo business. Against this background, the Government revised the stipulations governing this framework and introduced The Securities (Retail Repurchase Agreements) Regulations, 2014, to enhance the legal and regulatory framework for the Retail Repo market.*

liquidity shocks, and as a source of systemic risk in the Jamaican financial system. The FSC has published guidelines for the Retail Repo Mismatch Ratio (RRMR)[29] which was implemented as an early warning indicator in March 2018, for which reporting commenced in December 2018. The FSC's established benchmark for the RRMR is a maximum of 20%[30] with the Group's RRMR standing at 16.80% as of March 2020, having deteriorated from 11.2% in March 2019, though still within the FSC's benchmark. Going forward we expect the Group's funding base to consist of a larger proportion of lower cost, stable customer deposits.

With the Group's expansion over the years largely funded through debt instruments[31], JMMBGL's ratio of debt to TNW, though having declined to 7.7 times as of March 2020 from 10.7 times previously, is considered high. The improvement in gearing in March 2020 was largely because funding for the Group's SFC investment acquisition through the expansion of its banking business line was derived from a combination of the selling off of some of the Group's investment portfolio, and J $12 billion that was successfully raised from an APO done during the financial year. CariCRIS expects that notwithstanding an increase in TNW to around J $49.2 billion in FY2021, gearing is projected to remain high, though down to 7.1 times by March 2021.

Sluggish economic conditions could constrain growth

Notwithstanding good progress made with its regional diversification efforts, JMMBGL's consolidated performance continues to be highly linked to the performance of the Jamaican economy from which over 70% of the Group's revenue, assets and funding are still derived. The Jamaican economy has made significant progress in improving the country's fiscal operations, with 24 consecutive quarters of expansion, with Gross Domestic Product (GDP) growth projected at approximately 2.5% in FY19/20. However, due to the uncertainties in the global economic environment and economic distress caused by the ongoing Covid-19 pandemic, GDP is projected to contract 5.6%. Jamaica is also considered one of the most indebted countries in the Caribbean with an estimated debt to GDP ratio of 95% as of March 2019[32]. Further, there has been a fair level of exchange rate volatility, exacerbated by the current high liquidity conditions. Nonetheless,

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[29] *Source: FSC. RRMR directly indicates the degree to which the securities dealer's retail repo portfolio is exposed to the impact of movements in interest rates. The ratio effectively represents the potential percentage movement in the value of the retail repo assets for every percentage movement in interest rates.*

[30] *The FSC intends to reduce the benchmark to a maximum limit of no more than 15% by December 31, 2020.*

[31] *Repurchase agreements and deposits.*

[32] *Source: IMF Press Release: IMF Staff Concludes Visit to Jamaica, June 14, 2019.*

though heavily exposed to the Jamaican economy, the Group remains strongly capitalized and well-positioned to absorb shocks.

In T&T, where JMMBGL derived approximately 20% of its total revenue for the period ended March 2020, real GDP is projected to contract by approximately 2.4% in 2020[33]. Falling oil and gas prices in the energy sector persist (around 22.9% of GDP), driven by reduced supply and demand conditions due to the ongoing Covid-19 pandemic. Demand and labour market conditions are expected to remain sluggish with businesses still facing challenges in accessing US dollars and there is also a growing level of unemployment, with the IMF forecasting unemployment to rise to 5% in 2020 as short-term unemployment increased significantly over the period March to May 2020. A material proportion of permanent jobs were lost due to business closures. The tourism and services sectors were the most adversely affected, with the closure of borders bringing tourism effectively to a standstill. Though the Group expects to grow its market share in T&T through the expansion of its commercial banking business line, the current economic conditions may constrain revenue growth in the medium term. High unemployment, weak consumer demand and labour market conditions could negatively impact the level of new business written by its T&T subsidiaries over the next 12 – 15 months.

The Dominican Republic should serve to support the financial performance of the Group going forward. In 2019 the DR's financial system remained sound with banks remaining well capitalized, profitable, and liquid, and with credit continuing its growth at a healthy rate and NPL's falling to 1.6%[34]. The Dominican Republic's economy has enjoyed strong growth since 2014 with stable macroeconomic and financial policies, and a favourable external environment. In 2020, GDP is expected to contract by 1%, a far lesser contraction than that of their other regional counterparts.

September 18, 2020

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33 *Projected by the Government of Trinidad and Tobago, the International Monetary Fund (IMF) projects a 4.5% contraction in real GDP for 2020 - IMF at a Glance Report.*

34 *IMF Country Report No. 20/154, May 2020.*