JMMB Bank (Jamaica) Limited
Financial Statements
31 March 2020

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
JMMB BANK (JAMAICA) LIMITED

Report on the Audit of the Financial Statements

We have audited the financial statements of JMMB Bank (Jamaica) Limited, ("the Bank") set out on pages 5 to 77, which comprise the statement of financial position as at 31 March 2020, the profit or loss account, 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 Bank as at 31 March 2020, 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 Bank 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.

To the Members of
JMMB BANK (JAMAICA) 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 judgment and maintain professional skepticism throughout the audit. We also:

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

To the Members of
JMMB BANK (JAMAICA) 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank 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.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JMMB BANK (JAMAICA) 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

July 14, 2020

JMMB BANK (JAMAICA) LIMITED

Profit or Loss Account

Year ended 31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Net Interest Income and Other Revenue			
Interest income calculated using the effective interest method	5(a)	4,242,888	3,302,084
Interest expense	5(a)	(1,525,497)	(1,163,025)
Net Interest Income	5(a)	**2,717,391**	**2,139,059**
Other Revenue			
Fee income	6	350,885	218,905
Foreign exchange gains on trading and translation	5(b)	1,319,142	963,309
Gains on sale of investments	5(b)	127,830	609,410
Other income		117,968	30,502
Total other operating revenue		1,915,825	1,822,126
Net Interest Income and Other Revenue		**4,633,216**	**3,961,185**
Non-interest Expenses			
Impairment losses on financial assets	7	417,985	173,521
Staff costs	8	1,630,564	1,297,467
Bank charges		120,566	99,651
Property expenses		48,118	73,374
Depreciation and amortisation	18,19,26	158,233	119,770
Information technology costs		112,886	99,584
Marketing and corporate affairs		40,395	40,804
Professional fees		47,378	51,476
Management fees	33(b)	150,000	210,398
Regulatory costs		69,047	52,254
Irrecoverable General Consumption Tax		87,805	78,665
Asset tax		125,210	98,806
Other operating expenses		190,573	130,746
Total non-interest Expenses		**3,198,760**	**2,526,516**
Profit before Taxation	9	1,434,456	1,434,669
Taxation	10	(313,295)	(290,626)
Profit for the Year		**1,121,161**	**1,144,043**

JMMB BANK (JAMAICA) LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Profit for the Year		1,121,161	1,144,043
Other Comprehensive Income/loss			
Items which are, or may be reclassified to profit or loss:			
Unrealised (losses)/gains arising on revaluation on FVOCI investments, net of tax		(139,048)	10,763
Reclassification of losses realised and reported in profits or loss, net of tax		(90,679)	(443,332)
Other comprehensive loss for the year	31	(229,727)	(432,569)
Total comprehensive income for the year		891,434	711,474

JMMB BANK (JAMAICA) LIMITED

Statement of Financial Position

31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Assets			
Cash and balances with banks	12	15,655,023	10,082,439
Investment in securities	13	10,386,791	3,516,040
Securities purchased under resale agreements	14	2,837,130	851,492
Pledged assets	15	2,909,744	7,391,669
Loans and notes receivable	16	50,170,124	33,834,510
Accounts receivable	17	454,066	223,508
Intangible asset	18	419,134	342,833
Property, plant and equipment	19	166,868	210,098
Deferred tax assets	20	353,757	-
Right-of-use assets	26	150,683	-
Customers' liabilities under acceptances, guarantees and letters of credit as per contra		525,491	213,042
Total Assets		84,028,811	56,665,631

JMMB BANK (JAMAICA) LIMITED

Statement of Financial Position (Continued)

31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Liabilities			
Securities sold under repurchase agreements	21	2,750,773	6,375,816
Deposits	22	67,074,512	38,904,121
Due to other financial institutions	23	210,723	190,927
Accounts payable	24	1,016,711	1,037,090
Deferred tax liabilities	20	-	79,714
Promissory note	25	1,086,212	1,000,537
Lease liabilities	26	153,456	-
Taxation payable		487,549	232,434
Liabilities under acceptances, guarantees and letters of credit as per contra		525,491	213,042
Total Liabilities		73,305,427	48,033,681
Stockholders' Equity			
Share capital	27	2,932,888	1,732,888
Statutory reserve fund	28	1,224,089	1,055,915
Retained earnings reserve	29	4,815,442	3,715,442
Capital redemption reserve	30	85,488	85,488
Fair value reserve	31	(97,293)	132,434
Loan loss reserve	16(c)	489,810	367,541
Retained earnings		1,272,960	1,542,242
		10,723,384	8,631,950
Total Liabilities and Stockholders' Equity		84,028,811	56,665,631

Approved for issue by the Board of Directors on July 14, 2020 and signed on its behalf by:

Dennis Harris	Director	Archibald Campbell	Director

JMMB BANK (JAMAICA) LIMITED

Statement of Changes in Equity

Year ended 31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Statutory Reserve Fund $'000	Retained Earnings Reserve $'000	Capital Redemption Reserve $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings $'000	Total $'000
Balances at 1 April 2018	**1,732,888**	**941,511**	**3,715,442**	**85,488**	**565,003**	**232,900**	**747,244**	**8,020,476**
Total comprehensive income for 2019								
Profit for the year	-	-	-	-	-	-	1,144,043	1,144,043
Other comprehensive loss for the year:		-	-	-	-	-	-	
Unrealised gains on FVOCI investments, net of tax	-	-	-	-	10,763	-	-	10,763
Reclassification of gains realised and reported in profits or loss, net of tax	-	-	-	-	(443,332)	-	-	(443,332)
Other comprehensive loss	-	-	-	-	(432,569)	-	-	(432,569)
Total comprehensive income for the year	-	-	-	-	(432,569)	-	1,144,043	711,474
Transfer to loan loss reserve (note 16)	-	-	-	-	-	134,641	(134,641)	-
Transfer to statutory reserve fund	-	114,404	-	-	-	-	(114,404)	-
Transactions with owners:								
Dividends (note 11)	-	-	-	-	-	-	(100,000)	(100,000)
Balances at 31 March 2019	**1,732,888**	**1,055,915**	**3,715,442**	**85,488**	**132,434**	**367,541**	**1,542,242**	**8,631,950**
Total comprehensive income for 2020								
Profit for the year	-	-	-	-	-	-	1,121,161	1,121,161
Other comprehensive loss for the year: Unrealised losses on FVOCI investments, net of tax	-	-	-	-	(139,048)	-	-	(139,048)
Reclassification of losses realised and reported in profit or loss, net of tax	-	-	-	-	(90,679)	-	-	(90,679)
Other comprehensive loss	-	-	-	-	(229,727)	-	-	(229,727)
Total comprehensive income for the year	-	-	-	-	(229,727)	-	1,121,161	891,434
Transfer to loan loss reserve (note 16)	-	-	-	-	-	122,269	(122,269)	-
Transfer to retained earning reserve	-	-	1,100,000	-	-	-	(1,100,000)	-
Transfer to statutory reserve fund	-	168,174	-	-	-	-	(168,174)	-
Transactions with owners:								
Shares issued	1,200,000	-	-	-	-	-	-	1,200,000
Balances at 31 March 2020	**2,932,888**	**1,224,089**	**4,815,442**	**85,488**	**(97,293)**	**489,810**	**1,272,960**	**10,723,384**

JMMB BANK (JAMAICA) LIMITED

Statement of Cash Flows

Year ended 31 March 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Profit for the year		1,121,161	1,144,043
Adjustments for:			
Interest income	5(a)	(4,242,888)	(3,302,084)
Interest expense	5(a)	1,525,497	1,163,025
Net impairment (gain)/loss on investment securities		(16,603)	29,711
Net impairment loss on loans and notes receivable		435,088	115,735
Depreciation and amortisation	18,19,26	158,233	119,770
Taxation	10	313,295	290,626
Gain on sale of property, plant and equipment		(525)	-
		(706,742)	(439,174)
Changes in operating assets and liabilities -			
Accounts receivable		(247,707)	(68,036)
Loans receivable		(16,733,096)	(7,090,648)
Accounts payable		(20,379)	573,604
		(17,707,924)	(7,024,254)
Interest received		4,225,953	3,344,690
Interest paid		(1,334,936)	(1,142,438)
Taxation paid		(376,786)	(92,387)
Cash used in operating activities		(15,193,693)	(4,914,389)
Cash Flows from Investing Activities			
Acquisition of property and equipment, and intangible asset	18,19	(166,839)	(228,438)
Proceeds on disposals of property, plant and equipment		525	-
Investments (net)		(5,933,281)	(490,217)
Securities purchased under resale agreements		620,712	(2,142,557)
Cash used in investing activities		(5,478,883)	(2,861,212)
Cash Flows from Financing Activities			
Deposits		28,030,329	7,857,515
Securities sold under repurchase agreements		(3,654,386)	1,952,077
Due to other financial institutions		19,715	(157,060)
Promissory note		71,520	(2,400)
Lease liabilities	26(iii)	(27,125)	-
Dividends paid	11	-	(100,000)
Proceeds from share issue		1,200,000	-
Cash provided by financing activities		25,640,053	9,550,132
Effect of exchange rate changes on cash and cash equivalents		(36,775)	(11,714)
Net increase in cash and cash equivalents		4,930,702	1,762,817
Cash and cash equivalents at beginning of year		6,658,559	4,895,742
CASH AND CASH EQUIVALENTS AT END OF YEAR	12	11,589,261	6,658,559

1. Identification and Activities

(a) JMMB Bank (Jamaica) Limited (“the Bank”) is domiciled and incorporated in Jamaica and is a wholly owned subsidiary of JMMB Group Limited (“parent”) which is also domiciled and incorporated in Jamaica. The registered office of the Bank is located at 6 – 8 Grenada Way, Kingston 5.

(b) The Bank’s main business is that of taking deposits, granting loans and trading in foreign currencies.

(c) The Bank is licensed under the Banking Services Act (2014), and the Banking Services Regulations (2015). The Bank is regulated by the Bank of Jamaica (the Supervisor or regulator).

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.

Details of the Bank’s accounting policies, including changes during the year, are included in notes 4 and 36.

(b) Basis of preparation:

The financial statements are prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of the Bank’s 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. Actual amounts could differ from those estimates.

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 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.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank’s accounting policies which require the use of judgements in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are described below:

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

(a) Key *sources of estimation uncertainty*

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

(i) Fair value of financial assets

There are no quoted market prices for a significant portion of the Bank's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. The yield curve is, in turn, obtained from a pricing source which uses indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach. The fair values determined in this way are classified as Level 2 in the fair value hierarchy.

Some other fair values are estimated based on quotes published by broker/dealers, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be significantly different from the actual price of the instrument in an actual arm's length transaction [see notes 13 and 34(g)].

(ii) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Impairment of financial assets

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit loss (ECL) is further detailed in notes 34(b) and 36(b)(vii), which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increases in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(b) Critical accounting judgments in applying the Bank's accounting policies

The Bank's accounting policies, which require the use of judgements in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements, include the following:

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

(b) Critical accounting judgments in applying the Bank's accounting policies (continued)

(1) Classification of financial assets:

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

(2) Impairment of financial assets:

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

It is reasonably probable, based on existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

4. Changes in Significant Accounting Policies

The Bank initially applied IFRS 16 *Leases* from 1 April 2019. A number of other new standards are also effective from 1 April 2019 but they do not have a material effect on the Bank's financial statements.

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the statement of financial position at 1 April 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17, *Leases* and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 36(j).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

(b) As a lessee

As a lessee, the Bank leases properties. The Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet (note 26).

4. Changes in Significant Accounting Policies (Continued)

(b) As a lessee (continued)

For leases of properties the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Bank classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 April 2019 (see note 26). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

– did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

– excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

– used hindsight when determining the lease term.

(c) Impact on transition

On transition to IFRS 16, the Bank recognised right-of-use assets and lease liabilities. The impact on transition is summarised below.

	1 April 2019
	$'000
Right-of-use assets – Buildings	32,530
Lease liabilities	32,530

For the impact of IFRS 16 on profit or loss for the period, see note 26. For the details of accounting policies under IFRS 16 and IAS 17, see note 36(j).

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 5.83%.

JMMB BANK (JAMAICA) LIMITED

Notes to the Financial Statements
31 March 2020
(expressed in Jamaican dollars unless otherwise indicated)

4. Changes in Significant Accounting Policies (Continued)

(c) Impact on transition (continued)

	1 April 2019 $'000
Operating lease commitments at 31 March 2019 as disclosed under IAS 17 in the financial statements	28,387
Discounted using the incremental borrowing rate at 1 April 2019	22,996
Recognition exemption for lease with less than 12 months of lease term at transition date	(3,877)
Extension options reasonably certain to be exercised	13,411
Lease liabilities recognised at 1 April 2019 (note 26)	32,530

5. Investment Revenue

(a) **Net interest income**

	2020 $'000	2019 $'000
Total interest income calculated using the effective interest method		
Government of Jamaica securities	131,035	136,462
US Government agencies	22,614	4,003
Bank of Jamaica Certificate of Deposit	26,852	31,783
Securities purchased under resale agreements	195,462	104,930
Other securities	173,841	174,221
Investment income	549,803	451,399
Loans and other receivables (including cash and cash equivalents)	3,693,085	2,850,685
	4,242,888	3,302,084
Interest expense		
Securities sold under repurchase agreements	144,053	91,931
Deposits	1,255,376	1,008,838
Other	126,068	62,256
	1,525,497	1,163,025
Net interest income	2,717,391	2,139,059

(b) **Other revenue from financial assets**

	2020 $'000	2019 $'000
Foreign exchange trading and translation	1,319,142	963,309
Gains on sale of investments	127,830	609,410
	1,446,972	1,572,719

6. Fee Income

	2020 $'000	2019 $'000
Loans processing fees	350,885	218,905

JMMB BANK (JAMAICA) LIMITED

Notes to the Financial Statements
31 March 2020
(expressed in Jamaican dollars unless otherwise indicated)

7. Impairment Losses on Financial Assets

	2020 $'000	2019 $'000
Charged for the year on:		
Investment securities at FVOCI (note 31)	15,025	3,649
Loans and notes receivable (note 16)	434,587	143,191
Securities purchased under resale agreements (note 14)	(31,627)	26,681
	417,985	173,521

8. Staff Costs

	2020 $'000	2019 $'000
Salaries and wages	1,206,612	953,769
Statutory contributions	130,024	100,312
Pension contributions (note 32)	39,508	32,733
Other staff benefits	254,420	210,653
	1,630,564	1,297,467

9. Profit before Taxation

The following are among the items charged in arriving at profit before taxation:

	2020 $'000	2019 $'000
Directors' emoluments: fees	19,948	16,962
Auditors' remuneration	14,206	13,259
Depreciation and amortisation	158,233	119,770

10. Taxation

(a) The tax charge for the year comprises:

	2020 $'000	2019 $'000
Taxation at 33⅓%	612,591	298,630
Prior year under accrual	19,311	-
	631,902	298,630
Deferred tax (note 20):		
Origination and reversal of temporary differences	(318,607)	(36,995)
Tax benefit of losses carried forward	-	28,991
	(318,607)	(8,004)
Taxation recognised for the year	313,295	290,626

JMMB BANK (JAMAICA) LIMITED

Notes to the Financial Statements
31 March 2020
(expressed in Jamaican dollars unless otherwise indicated)

10. Taxation (Continued)

(b) The tax on profit differs from the theoretical amount that would arise using the statutory rate of 33⅓% as follows:

	2020 $'000	2019 $'000
Profit before tax	1,434,456	1,434,669
Tax at 33⅓%	478,152	478,223
Tax effect of:		
Expenses not deductible in determining taxable profit	84,981	55,410
Non-taxable income	(271,135)	(244,694)
Tax loss utilised	-	2,392
Other adjustments	1,986	(705)
Prior year under accrual	19,311	-
	313,295	290,626

11. Dividends

There was no dividend payment for the year (2019: $100 Million). The 2019 dividend was paid on 29 March 2019 and represented $0.156 per share.

12. Cash and Cash Equivalents

	2020 $'000	2019 $'000
Cash and balances with banks including Bank of Jamaica	15,655,023	10,082,439
Securities purchased under resale agreements (note 14)	2,812,764	878,484
Cash deposit at investment brokers (note 17)	5,578	19,495
	18,473,365	10,980,418
Less:		
Statutory reserves with Bank of Jamaica (see below)	(6,884,104)	(4,321,859)
Cash and cash equivalents for statement of cash flows	11,589,261	6,658,559

Statutory reserves with Bank of Jamaica are held in compliance with Section 43 of the Banking Services Act, which requires that every licensee maintains a percentage of its prescribed liabilities as cash reserve with Bank of Jamaica of not less than 5% (2019: 5%) of its prescribed liabilities. The reserve for prescribed liabilities is held on a non-interest-earning basis. No portion of the cash reserve is available for investment, lending or other use by the Bank. The actual required ratio at year end was 7% (2019: 9%) for Jamaican dollar cash reserves and 13% (2019: 15%) for foreign currency cash reserves.

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13. Investment in Securities

	2020 $'000	2019 $'000
Securities designated as FVOCI		
Government of Jamaica (GOJ) securities	111,479	3,023,840
US Government agencies	667,260	-
Bank of Jamaica certificates of deposit	5,201,190	1,875,000
Corporate bonds	5,673,980	3,677,454
Equity investments	24,496	23,777
	11,678,405	8,600,071
Interest receivable	127,912	165,080
	11,806,317	8,765,151
Pledged assets (see note 15)	(1,419,526)	(5,249,111)
	10,386,791	3,516,040

Investments mature from the reporting date as follows:

	2020 $'000	2019 $'000
Government of Jamaica securities:		
Within 3 months	-	1,250,239
From 3 months to 1 year	-	1,186,122
From 1 year to 5 years	45,599	61,559
Over 5 years	65,880	525,920
	111,479	3,023,840
Bank of Jamaica certificates of deposit:		
Within 3 months	5,201,190	1,875,000
US Government agencies		
Within 3 months	667,260	-
Equity investments - no fixed maturity	24,496	23,777
Corporate and other securities		
From 3 months to 1 year	1,439,600	349,247
From 1 year to 5 years	2,989,960	-
Over 5 years	1,244,420	3,328,207
	5,673,980	3,677,454
	11,678,405	8,600,071

14. Securities Purchased Under Resale Agreements

	2020 $'000	2019 $'000
Denominated in Jamaican dollars	300,481	-
Denominated in United States dollars	4,002,500	3,021,041
Interest receivable	24,394	4,663
	4,327,375	3,025,704
Less: allowance for impairment [note 34(b)(ii)]	(27)	(31,654)
	4,327,348	2,994,050
Pledged assets (note 15)	(1,490,218)	(2,142,558)
	2,837,130	851,492

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14. Securities Purchased Under Resale Agreements (Continued)

	2020 $'000	2019 $'000
Allowance for impairment:		
Balance as at 1 April 2019	31,654	-
Adjustment on initial application of IFRS 9	-	4,973
Net measurement during the year (note 7)	(31,627)	26,681
Balance at 31 March	27	31,654

Resale agreements include balances with related parties as set out in note 33. All resale agreements mature within twelve months after the reporting date.

For the purpose of the statement of cash flows, an amount of $2,812,764,000 (2019: $878,484,000) is included in cash and cash equivalents (see note 12).

The securities that the Bank obtains as collateral under resale agreements may be used as collateral under repurchase agreements. Certain of these securities and interest accrued thereon are pledged as security for repurchase agreements (see note 15).

The fair value of collateral held for securities purchased under resale agreements amounted to $5,711,976,000 (2019: $4,867,919,000) at the reporting date.

15. Pledged Assets

At the reporting date, investment securities were pledged as collateral for repurchase agreements (note 21) as follows:

	2020 $'000	2019 $'000
Investment in securities (note 13)	1,419,526	5,249,111
Securities purchased under resale agreements (note 14)	1,490,218	2,142,558
	2,909,744	7,391,669

16. Loans and Notes Receivable

	2020 $'000	2019 $'000
Corporate	21,611,542	15,984,536
Financial institutions	802,720	114,106
Individuals	28,346,925	17,937,668
	50,761,187	34,036,310
Less: allowance for impairment	(801,630)	(377,995)
	49,959,557	33,658,315
Interest receivable	210,567	176,195
	50,170,124	33,834,510

16. Loans and Notes Receivable

(a) Loans and notes receivable include an amount of $476,975,000 (2019: $534,500,000) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $1,319,263,000 (2019: $565,630,000).

(c) The movement in the allowance for loan losses is as follows:

	2020 $'000	2019 $'000
Specific impairment allowance for loan losses		
Balance at 1 April 2019	377,995	217,587
Adjustment on initial application of IFRS 9	-	32,956
Charge for the year, net of recoveries (note 7)	434,587	143,191
Write-offs, net	(10,952)	(15,739)
Balance at 31 March 2020	801,630	377,995
Regulatory provision (in excess of IFRS requirements)		
Provision at 1 April	367,541	265,856
Remeasurement on 1 April 2019	-	(32,956)
Transferred from retained earnings	122,269	134,641
Balance at end of year	489,810	367,541
Total provision for loan losses	1,291,440	745,536
Allowance based on IFRS 9 - see (i) below	801,630	377,995
Additional provision based on Bank of Jamaica regulations (see (ii) below)	489,810	367,541
	1,291,440	745,536

(i) This is the requirement based on IFRS 9 *Financial Instruments.*

(ii) This non-distributable loan loss reserve represents the additional reserve required to meet Bank of Jamaica loan loss provision requirements.

17. Accounts Receivable

	2020 $'000	2019 $'000
Investment brokers (note 12)	5,578	19,495
Withholding tax recoverable	54,626	52,757
Recoverable expenses	295,989	51,992
Fellow subsidiary	30	1,452
Other receivables	102,720	100,645
	458,943	226,341
Less: Allowance for impairment (including transfer from loan provision)	(4,877)	(2,833)
	454,066	223,508

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17. Accounts Receivable (Continued)

	2020 $'000	2019 $'000
Aging of past due and impaired receivables		
90 – 180 days	268	111
181 – 360 days	396	350
Over 360 days	4,213	2,372
	4,877	2,833
Allowance for impairment:		
Balance at beginning of year	2,833	1,719
Charged to profit for the year (a)	2,044	1,114
Balance at end of year	4,877	2,833

(a) Impairment charge for the year is included in other operating expenses.

18. Intangible Asset

	Computer Software $'000
Cost	
At 31 March 2018	678,939
Additions	138,741
At 31 March 2019	817,680
Additions	152,741
At 31 March 2020	970,421
Accumulated Amortisation	
At 31 March 2018	405,120
Charge for the year	69,727
At 31 March 2019	474,847
Charge for the year	76,440
At 31 March 2020	551,287
Net Book Value	
31 March 2020	419,134
31 March 2019	342,833

Additions include cost to date on the development of card services application. The cost to complete is estimated at $127,236,000 (2019: $271,007,000) [note 35(d)].

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19. Property, Plant and Equipment

	Freehold Land and Buildings	Equipment, Furniture and Fittings	Paintings and Artwork	Leasehold Improvement	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
At 31 March 2018	23,359	376,211	9,223	92,136	2,973	503,902
Additions	-	63,546	-	26,151	-	89,697
At 31 March 2019	23,359	439,757	9,223	118,287	2,973	593,599
Additions	-	12,944	761	393	-	14,098
Disposal	-	-	-	-	(1,427)	(1,427)
At 31 March 2020	23,359	452,701	9,984	118,680	1,546	606,270
Accumulated Depreciation						
At 31 March 2018	7,265	237,145	-	86,075	2,973	333,458
Charge for the year	510	43,825	-	5,708	-	50,043
At 31 March 2019	7,775	280,970	-	91,783	2,973	383,501
Charge for the year	510	50,491	-	6,327	-	57,328
Disposal	-	-	-	-	(1,427)	(1,427)
At 31 March 2020	8,285	331,461	-	98,110	1,546	439,402
Net Book Value						
At 31 March 2020	15,074	121,240	9,984	20,570	-	166,868
At 31 March 2019	15,584	158,787	9,223	26,504	-	210,098

20. Deferred Income Taxes

Deferred tax assets and liabilities recognised on the statement of financial position are as follows:

	2020	2019
	$'000	$'000
Deferred income tax assets	467,975	99,022
Deferred income tax liabilities	(114,218)	(178,736)
Net deferred income tax assets/(liabilities)	353,757	(79,714)

Deferred tax is calculated using a tax rate of 33⅓%. The movement for the year in the net deferred tax is as follows:

	2020			
	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Property, plant and equipment	14,355	15,841	-	30,196
Interest receivable	(112,421)	(1,798)	-	(114,219)
Interest payable	78,795	61,213	-	140,008
Accounts payable	4,875	1,016	-	5,891
Tax credit	1,000	-	-	1,000
Unrealised gains	(99)	188,120	-	188,021
Lease liability	-	924	-	924
Loans	-	53,291	-	53,291
Investments	(66,219)	-	114,864	48,645
	(79,714)	318,607	114,864	353,757

20. Deferred Income Taxes (Continued)

Deferred tax is calculated using a tax rate of 33⅓%. The movement for the year in the net deferred tax is as follows:

	2019			
	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Tax losses carried forward	28,991	(28,991)	-	-
Property, plant and equipment	1,027	13,328	-	14,355
Interest receivable	(126,615)	14,194	-	(112,421)
Interest payable	71,934	6,861	-	78,795
Accounts payable	2,169	2,706	-	4,875
Tax credit	1,000	-	-	1,000
Unrealised gains	(5)	(94)	-	(99)
Investments	(270,704)	-	204,485	(66,219)
	(292,203)	8,004	204,485	(79,714)

21. Securities Sold Under Repurchase Agreements

	2020	2019
	$'000	$'000
Financial institutions	2,683,892	6,338,277
Interest payable	66,881	37,539
	2,750,773	6,375,816

Securities pledged to collateralise repurchase agreements are disclosed at note 15.

22. Deposits

	2020	2019
	$'000	$'000
Personal	21,028,738	9,712,879
Financial institutions	14,362,415	6,382,961
Commercial and business enterprises	31,344,867	22,609,851
	66,736,020	38,705,691
Interest payable	338,492	198,430
	67,074,512	38,904,121

23. Due to Other Financial Institutions

	2020	2019
	$'000	$'000
Development Bank of Jamaica (a)	148,334	190,888
National Housing Trust (b)	62,271	-
	210,605	190,888
Interest payable	118	39
	210,723	190,927

23. Due to Other Financial Institutions (Continued)

(c) The above balance consist of J$148,334,000 (2019 -J$190,888,000) due to Development Bank of Jamaica (DBJ), at interest rates of 5% to 7% per annum for periods up to 8 years (2019: 5% to 7% per annum for periods up to 9 years). The loans are for on-lending to customers to finance development and agricultural projects within the terms and conditions specified by the DBJ and are repayable in monthly instalments.

(d) The balance due to National Housing Trust (NHT) consists of $62,271,000 (2019 - Nil) at interest rates of 1% to 3% per annum for periods of 25 years. The loan is for on-lending to customers to finance home acquisition within the terms and conditions specified by the NHT and are repayable in monthly instalments.

24. Accounts Payable

	2020 $'000	2019 $'000
Items in the process of settlement	255,727	86,351
Owed to related parties [note 33(a)]	107,512	225,524
Payroll taxes	27,756	21,745
General Consumption Tax payable	9,006	5,485
Accrued expenses	157,930	135,124
Customers' loan settlement	347,126	446,466
Other payables	111,654	116,395
	1,016,711	1,037,090

25. Promissory Note

	2020 $'000	2019 $'000
Principal	1,071,680	1,000,160
Interest payable	14,532	377
	1,086,212	1,000,537

This represents a short-term unsecured funding facility from Citibank, N.A. of US$8,000,000 at an interest rate of 4.32% (2019: 4.52%) for the period 10 December 2019 to 5 June 2020.

26. Lease Liabilities

The Bank leases properties for office space and other uses. The leases run for periods of 1 to 5 years. Certain leases have an option to renew for further periods of 1 to 5 years.

The Bank leases retail and office spaces with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

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26. Lease Liabilities (Continued)

(i) Amounts recognised in the statement of financial position shows the following amounts relating to leases:

	2020 $'000
Right-of-use assets-buildings:	
Recognised at 1 April	32,530
Additions	142,618
Charge for the year	(24,465)
Balance at 31 March	150,683
Lease liabilities-	
Current	29,826
Non-current	123,630
	153,456

(ii) Amounts recognised in the profit or loss account show the following amounts relating to leases:
2020 – Leases under IFRS 16

	2020 $'000
Depreciation charge on right-of-use assets	24,465
Interest expense on lease liabilities	6,923
Expense relating to short-term and low-value leases (included in property expenses)	12,666

2019 - Operating leases under IAS 17

	2020 $'000
Lease expenses	37,824

(iii) Amounts recognized in the statement of cash flows:

	2020 $'000
Total cash out flows for leases	27,125

(iv) Extension options

Some property leases contain extension options exercisable by the Bank up to twelve months before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of $196,385,000.

27. Share Capital

	2020 '000	2019 '000
Authorised -		
1,800,000,000 ordinary shares at no par value	1,800,000	800,000
100,000,000 convertible preference shares at no par value	100,000	100,000
	$'000	**$'000**
Issued and fully paid -		
800,000,000 (2019 - 641,159,682) ordinary shares of no par value	2,932,888	1,732,888

On January 31, 2020, the Bank issued 158,840,318 ordinary shares at a price of J$7.55 to the existing shareholder, JMMB Group Limited, based on a resolution approved by the Board. The share were fully settled at the year end.

28. Statutory Reserve Fund

Under Section 41 of the Banking Services Act, the Bank is required to transfer a minimum of 15% of the profit each year to a reserve fund until the amount to the credit of the reserve fund is equal to 50% of the paid up capital. Thereafter, 10% of the net profit each year is to be transferred to the reserve fund until the amount at the credit of the reserve fund is equal to the paid up capital. The transfer for the year was at the prescribed rate of 15% (2019 - 10%).

29. Retained Earnings Reserve

Section 42 of the Banking Services Act permits the transfer of net profits to a retained earnings reserve. Such transfers are made at the discretion of the Bank's directors and must be notified to the Bank of Jamaica.

The amount transferred to retained earnings reserve from unappropriated profits during the year was $1,100,000,000 (2019: $Nil).

30. Capital Redemption Reserve

Capital redemption reserve is based on the redemption of 42,744,000 cumulative redeemable preference shares at a value of $85,488,000 in 2011. In conformity with the provisions of the Jamaican Companies Act, an amount equal to the value of the preference shares redeemed was transferred from retained earnings to the Capital Redemption Reserve.

31. Fair Value Reserve

Fair value reserve represents the excess or shortfall of the fair value of securities classified as FVOCI at the year-end over the amortised cost, net of expected credit losses on such securities, and deferred tax.

Movement in fair value reserve is as follows:

	2020 $'000	2019 $'000
Balance at beginning of year	132,434	541,404
Adjustment on initial application of IFRS 9	-	23,599
	132,434	565,003
Expected credit loss for the year (note 7)	15,025	3,649
Unrealised (losses)/gains on investments	(223,597)	24,295
Realised gains on sale of investments transferred to profit or loss account	(136,019)	(664,998)
Deferred tax adjustment (note 20)	114,864	204,485
Other comprehensive loss for the year	(229,727)	(432,569)
Balance at end of year	(97,293)	132,434

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32. Post-employment Benefits

Pensions are the only post-employment benefits to which the Bank is committed. To better secure the payment of promised benefits, a fellow subsidiary company operates a defined-contribution pension fund for the Bank's Jamaican employees who have satisfied certain minimum service requirements. The fund is financed by equal contributions of employer and employees of 5% of pensionable salaries with an option for employees to contribute up to an additional 10% of pensionable salaries.

The fund is administered by trustees and the assets are held separately from those of the Bank. Under the rules of the fund, an actuarial valuation should be carried out by the appointed actuaries every three years. An actuarial valuation of the fund was done as at 31 December 2017 by Eckler Jamaica, independent actuaries. The valuation report revealed a funding surplus.

The pension benefit is the annuity that can be purchased by the amount standing to the credit of the member's account at the date of retirement.

The contributions for the year amounted to $39,508,000 (2019: $32,733,000) [see note 8].

33. Related Party Transactions and Balances

(a) The statement of financial position includes balances, in the ordinary course of business, with the parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2020 $'000	2019 $'000
Cash and cash equivalents		
Fellow subsidiaries	194,275	357,440
Securities purchased under resale agreements:		
Fellow subsidiaries	4,327,375	3,025,704
Loans and notes receivable:		
Other related parties	132,629	142,770
Key management personnel, including directors	557,051	344,292
	689,680	487,062

	2020 $'000	2019 $'000
Accounts receivable:		
Fellow subsidiaries	30	1,452
Deposits:		
Parent company	22,909	18,702
Fellow subsidiaries	15,775,043	14,450,199
Other related parties	2,404,600	3,163,078
Key management personnel including directors	138,281	128,051
	18,340,833	17,760,030
Accounts payable:		
Fellow subsidiary (note 24)	107,512	225,524
Other related parties	928	270
Key management personnel including directors	1,539	682
	109,979	226,476
Securities sold under repurchase agreements:		
Other related parties (i)	814,852	3,275,424

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33. Related Party Transactions and Balances (Continued)

(a) (Continued)

(i) This amount represents repurchase agreements with JMMB Save Smart and JMMB Smart Investor.

(b) The profit or loss account includes transactions, in the ordinary course of business, with the parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2020 $'000	2019 $'000
Interest earned:		
Other related party	12,970	16,587
Fellow subsidiary	193,930	67,205
Key management personnel including directors	32,145	21,114
	239,045	104,906
Other income:		
Parent company	36	-
Fellow subsidiary	142,393	20,076
Other related parties	91,569	-
Key management personnel including directors	421	-
	234,419	20,076
Management fees:		
Fellow subsidiary	150,000	210,398
Interest expense:		
Parent company	300	-
Fellow subsidiary	483,976	418,545
Other related parties	75,612	120,330
Key management personnel including directors	2,216	2,159
	562,104	541,034
Other expenses:		
Fellow subsidiaries	307,359	9,173
Key management personnel including directors	2,128	-
	309,487	9,173

(c) Key management includes directors and senior executives of the Bank. The compensation paid or payable to key management for employee services is as shown below:

	2020 $'000	2019 $'000
Staff costs - (included in staff costs - note 8)	229,328	198,516

34. Financial Risk Management

(a) Introduction and overview

The Bank's activities result in exposure to credit, market, liquidity and operational risks. An enterprise-wide risk management approach is adopted which involves employees on all levels. This framework is supported by sound risk management practices which include the establishment of enterprise-wide policies, procedures and limits, monitoring and measurement of exposure against established limits, ongoing realignment of business strategies and activities and the reporting of significant exposures to senior management and the Board of Directors.

34. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board's risk management mandate is principally carried out through the following committees.

(i) Risk Committee

The Group's Board Risk Committee is responsible for the oversight of the overall risk management functions of the Bank. The committee decides the policies and strategy for integrated risk management of the various risk exposures of the Bank.

(ii) Board Credit Committee

The Board Credit Committee is responsible for approving all credit requests above a specified threshold and ensuring that all lending facilities conform to standards agreed by the Board and embodied in the Credit Risk Policy. The committee is ultimately responsible for determining the composition and management of the credit portfolio.

(iii) Audit Committee

The Audit Committee monitors the quality of the Bank's internal controls and compliance with regulatory requirements. The Audit Committee is assisted in its oversight role by the Internal Audit Function and the Risk and Compliance Unit. Internal Audit undertakes both regular and ad hoc reviews of the risk management controls and procedures, the results of which are reported quarterly to the Audit Committee.

The oversight of certain specific aspects of operational risk, such as fraud, is also within the purview of the Audit Committee.

(iv) Investment Committee

The Investment Committee is a senior management level committee responsible for the management of market risks. The committee monitors the composition of assets and liabilities, evaluates potential market risk involved in launching new products, reviews and articulates funding policy and decides optimal ways of managing the Bank's liquidity.

(v) Asset and Liability Committee (ALCO)

ALCO is the management committee that monitors and adjusts the overall profile of assets and liabilities to increase the probability of achieving strategic business results within the context of Board approved risk appetite, relevant policies and applicable regulations.

Impact of Covid-19

The World Health Organisation declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices. In response to the pandemic, Management has adopted several measures specifically around financial risk management. These measures include:

(i) Enhanced monitoring of market movements by the Risk unit and tracking of the impact on the investment portfolios and the resulting impact on capital and liquidity to support timely decision making.

(ii) The Asset and Liability Committee within the Bank met bi-weekly to discuss strategies and plans around managing the liquidity and the capital needs of the Bank.

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34. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

Impact of Covid-19 (Continued)

(iii) The implementation of measures to assist external clients during this crisis, such as:

- Payment accommodations on loans which include but are not limited to moratoriums and working capital support.

- It is not expected that there will be reclassification of loans from Stage 1 to Stage 2 in the short term as these payment holidays should not trigger a significant increase in the credit risk (SICR) unless other criteria indicating SICR [see note 34(b)(v)(i)] are identified.

(b) Credit risk

The Bank is exposed to credit risk, which is the risk that its customers or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is an important risk for the Bank's business and management carefully monitors its exposure to credit risk. Credit exposure of the Bank arises mainly from lending and investment activities. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or group of related counterparties and to an industry segment. Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit, guarantees or undertakings. These expose the Bank to similar risks as loans and these are mitigated by the same control policies and processes.

(i) Management of credit risk

Credit risk is a significant risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Covid-19 pandemic has materially impacted the economic outlook and potential increase in probability of default for the Bank's loan portfolio. This has resulted in enhanced monitoring of the loan portfolio in addition to increased provisioning.

The Bank's credit risk is managed through a framework which incorporates the management of key financial assets as follows:

Investments

The Bank invests primarily in Government of Jamaica securities, corporate securities, Bank of Jamaica certificates of deposit and securities purchased under resale agreements. The Bank manages its exposure through the establishment of counterparty and concentration limits and policies which provide guidelines as to the minimum investment grade acceptable for investment in financial instruments. The Investment Committee also provides oversight for the management of the credit risk practices for the Bank.

JMMB BANK (JAMAICA) LIMITED

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

Loans and notes receivable

The Bank establishes policies and procedures which govern standards for granting credit and the process of continuous monitoring and measurement in relation to credit quality through industry and customer limits, portfolio diversification, delinquency and debt management.

The loan portfolio is separated into two categories: corporate and retail loans, each with specified approval and credit granting criteria. All loans are approved by the Credit Risk Unit, Management Credit Committee and the Board Credit Committee in accordance with an authorisation structure and supported by credit scoring systems and analyses.

All loans are assigned to relationship officers who are responsible for the monitoring and management of the loans assigned.

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and to take corrective action.

The Bank assesses the probability of default through a credit review process using an internal risk rating system which classifies loan in accordance with the following:

Risk Rating Scale		**Description**
Class	1	Excellent
Class	2	Good credit
Class	3	Average credit
Class	4	Acceptable
Class	5	Marginal
Class	6	Substandard
Class	7	Doubtful
Class	8	Loss

Loans and notes receivable that are cash-secured are included in the credit classification as Risk Rated 1, based on the Bank's rating grades.

Collateral

The taking of collateral (including guarantees) for funds advanced is dependent on the assessment of the credit risk of the counterparty. The Bank has implemented guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over commercial and residential properties;
- Charges over business assets such as premises, equipment, motor vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash and other near cash securities.

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

Collateral (Continued)

The Bank's policy requires the review of loans and advances at least annually or more regularly when individual circumstances require. In order to minimise the credit loss, the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to make drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The following tables set out information about credit quality of financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income (FVOCI).

Loans and notes receivables at amortised cost:

	2020				2019
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Credit grade					
Standard monitoring	47,959,904	535,437	-	48,495,341	32,032,831
Special monitoring	3,884	942,699	-	946,583	1,437,849
Default	-	-	1,319,263	1,319,263	565,630
	47,963,788	1,478,136	1,319,263	50,761,187	34,036,310
Loss allowance	(428,231)	(45,657)	(327,742)	(801,630)	(377,995)
	47,535,557	1,432,479	991,521	49,959,557	33,658,315

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(ii) Credit quality analysis

	2020				2019
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Ageing of loans and notes receivable					
Neither past due nor impaired	43,051,747	228,898	-	43,280,645	28,352,238
Past due 1-30 days	4,912,041	180,476	-	5,092,517	3,846,698
Past due 31-60	-	904,486	-	904,486	1,096,270
Past due 61-90	-	164,276	-	164,276	175,474
More than 90 days	-	-	1,319,263	1,319,263	565,630
	47,963,788	1,478,136	1,319,263	50,761,187	34,036,310

The Bank held collateral in respect of loans that are individually impaired, as per the table above, excluding unsecured loans, amounting to $1,341,716,000 (2019: $497,453,000) at their fair value.

The ageing of the Bank's past due loans at the reporting date was as follows:

Ageing of impaired loans

The analysis below is done based on the number of days since impairment:

	2020 $'000	2019 $'000
Current	7,286	-
1 - 30 days	4,075	40,698
31 - 60 days	21,345	20,546
61- 90 days	49,297	11,135
91 - 120 days	46,862	17,011
121 – 360	127,845	136,612
Over 360 days	316,169	131,981
	572,879	**357,983**

Securities purchased under resale agreements at amortised cost:

	2020	2019
	Stage 1 $'000	Stage 1 $'000
Credit grade		
Watch	4,327,375	3,025,704
Loss allowance (note 14)	(27)	(31,654)
	4,327,348	**2,994,050**

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(ii) Credit quality analysis (continued)

Debts securities at FVOCI:

	2020		2019
	Stage 1	Total	Total
	$'000	$'000	$'000
Credit grade			
Watch	11,653,909	11,653,909	8,576,294
Loss allowance	(33,215)	(33,215)	(18,365)

(iii) Exposure to credit risk

Loans

The following table summarises the Bank's credit exposure for loans at their carrying amounts, by industry sector:

	2020	2019
	$'000	$'000
Construction, land development and real estate acquisition	6,450,396	3,090,875
Distribution	4,685,796	2,999,852
Financial institutions	547,487	90,742
Mining, quarrying and processing	262,293	225,317
Manufacturing and utilities	2,467,463	2,413,987
Personal	27,089,157	17,454,789
Professional and other services	5,285,351	3,799,551
Tourism and entertainment	1,657,209	1,404,857
Transport, storage and communication	724,051	513,505
Electricity, gas and water	846,701	1,734,440
Entertainment	478,015	69,843
Food and beverage services	555	1,768
Agriculture	217,245	236,784
Overseas residents	28,645	-
Renewable energy systems	20,823	-
Total	50,761,187	34,036,310
Less: Allowance for impairment	(801,630)	(377,995)
	49,959,557	33,658,315
Interest receivable	210,567	176,195
	50,170,124	33,834,510

Renegotiated loans and leases

Restructuring activities include extending payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under review.

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iii) Exposure to credit risk (continued)

Loans (continued)

Repossessed collateral

The Bank can obtain assets by taking possession of collateral held as security. Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Bank does not occupy repossessed properties for business use.

The carrying value of the loans on which the collateral was repossessed during the year is $149,388,000 (2019: $75,805,000).

Investments

The following table summarises the Bank's credit exposure for investments at their carrying amounts, by issuer:

	2020 $'000	2019 $'000
Government of Jamaica	111,479	3,023,840
US Government agencies	667,260	-
Bank of Jamaica certificates of deposit	5,201,190	1,875,000
Corporate	5,673,980	3,677,454
Equity investments	24,496	23,777
	11,678,405	8,600,071
Interest receivable	127,912	165,080
	11,806,317	8,765,151

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

The Bank holds collateral against loans and advances to customers and others in the form of mortgage interests over property, registered securities over other assets, and guarantees. Fair value of collateral is assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the reporting date (2019: no collateral held).

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

An estimate of the fair value of collateral and other security enhancements made at the time of lending is shown below:

	Loans and notes receivable		Resale agreements	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Against neither past due nor impaired financial assets:				
Cash secured	1,307,387	1,474,665	-	-
Property	25,900,013	16,982,713	-	-
Debt securities	3,206,348	1,590,949	5,711,976	4,867,919
Liens on motor vehicles	15,570,198	10,625,716	-	-
	45,983,946	30,674,043	5,711,976	4,867,919
Against past due but not impaired financial assets:				
Cash secured	136,153	85,177	-	-
Property	3,769,352	2,737,838	-	-
Debt securities	971	924	-	-
Liens on motor vehicles	2,017,140	2,188,287	-	-
	5,923,616	5,012,226	-	-
Against past due and impaired financial assets:				
Property	877,243	173,781	-	-
Liens on motor vehicles	464,473	323,672	-	-
	1,341,716	497,453	-	-
	53,249,278	36,183,722	5,711,976	4,867,919

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	2020				
	Cash and cash equivalents	**Loans and notes receivable**	**Resale agreements**	**Investment securities**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Concentration by sector:					
Government of Jamaica	-	-	-	114,335	114,335
Sovereign bonds	-	-	-	1,148,019	1,148,019
Bank of Jamaica	7,691,791	-	-	5,203,997	12,895,788
Corporate	-	21,612,544	-	5,315,470	26,928,014
Financial institutions	7,963,232	805,406	4,327,348	-	13,095,986
Retail	-	27,752,174	-	-	27,752,174
	15,655,023	**50,170,124**	**4,327,348**	**11,781,821**	**81,934,316**

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

	2020				
	Cash and cash equivalents $'000	Loans and notes receivable $'000	Resale agreements $'000	Investment securities $'000	Total $'000
Concentration by location:					
Jamaica	11,153,017	46,520,866	4,327,348	9,272,525	71,273,756
North America	2,332,653	924,820	-	667,260	3,926,663
Trinidad and Tobago	-	-	-	1,840,106	1,840,106
Other	2,169,353	2,724,438	-	-	4,893,791
	15,655,023	**50,170,124**	**4,327,348**	**11,781,821**	**81,934,316**

	2019				
	Cash and cash equivalent $'000	Loans and notes receivable $'000	Resale agreements $'000	Investment securities $'000	Total $'000
Concentration by sector:					
Government of Jamaica	-	-	-	3,084,334	3,084,334
Bank of Jamaica	5,291,775	-	-	1,876,356	7,168,131
Corporate	-	16,033,037	-	3,780,684	19,813,721
Financial institutions	4,790,664	114,451	2,994,050	-	7,899,165
Retail	-	17,687,022	-	-	17,687,022
	10,082,439	**33,834,510**	**2,994,050**	**8,741,374**	**55,652,373**
Concentration by location:					
Jamaica	7,334,883	31,916,767	2,994,050	8,229,294	50,474,994
North America	1,926,527	561,079	-	-	2,487,606
Trinidad and Tobago	-	-	-	512,080	512,080
Other	821,029	1,356,664	-	-	2,177,693
	10,082,439	**33,834,510**	**2,994,050**	**8,741,374**	**55,652,373**

(v) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. A description of how the Bank determines when a significant increase in credit risk has occurred, is described below.

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below (continued):

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is provided below.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. An explanation of how the Bank incorporates this in its ECL models, is included in section (iii) below.

- Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows:

(i) Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the lifetime probability of default (PD) as at the reporting date with the lifetime PD that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades:

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

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

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(i) Significant increase in credit risk (continued)

Credit risk grades (continued):

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty.

Borrower and loan specific information collected at the time of application (such as disposable income, level of collateral for retail exposures and turnover and industry type for corporate exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Bank:

Retail:

For retail business, the rating is determined at the borrower level. After the date of initial recognition the payment behaviour of the borrower is monitored on a periodic basis and adjusted as necessary. Any other known information about the borrower which impacts their creditworthiness such as unemployment and previous delinquency history is also incorporated into the behavioural score. This score is mapped to a PD.

Commercial and Corporate:

For commercial and corporate business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the credit risk manager will also update information about the creditworthiness of the borrower on an annual basis from sources such as financial statements. This will determine the updated internal credit rating and PD.

Treasury:

For debt securities in the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's term structure associated with each grade are determined based on realised default rates as derived from the average 12-month through-the-cycle (TTC) transition matrices, as published by the rating agency.

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(i) Significant increase in credit risk (continued)

Treasury (continued):

The Bank's rating method comprises 21 rating levels for instruments not in default (1 to 21) and two default classes (22 to 23). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to periodic (at least once every three years) validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

Generating the term structure of PD:

Credit risk grades are the primary input into the determination of PD. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction and by type of product and borrower as well as by credit risk grading.

The Bank uses statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining when credit risk has increased significantly

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

The Bank considers that there is a significant increase in credit risk for its loans portfolio no later than when a loan is more than 30 days past due or any two-notch downgrade in its internal ratings. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This is the case for exposures that meet certain heightened risk criteria such as placement on a watch list.

The Bank considers that there is a significant increase in credit risk for its investment instruments when there is a decrease in credit rating as follows: a three-notch downgrade from investment grade to non-investment grade (below BBB-); a two-notch downgrade within or outside the BB/B bucket; or a one-notch downgrade within or outside the B-, CCC, CC and C buckets.

Financial instruments for which is determined that there is a significant increase in credit risk are transferred from stage 1 to stage 2 and impairment loss is measured based on lifetime expected credit loss.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(i) Significant increase in credit risk (continued)

Determining when credit risk has increased significantly (continued)

Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

(ii) Definition of default

The Bank considers the following quantitative and qualitative factors in determining whether a financial asset is in default:

- The borrower is more than 90 days past due on its obligation to the Bank.
- A decrease in internal rating of RR6 or higher
- The borrower is unlikely to pay its obligation to the Bank in full, without recourse by the Bank to actions such as realising security. This may arise from instances such as bankruptcy, long-term forbearance, insolvency, breach of financial covenants, death or restructuring.

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

Financial assets classified as ‘default’ are transferred to stage 3 and impairment loss is measured based on lifetime expected credit losses.

(iii) Incorporation of forward-looking information

The Bank incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of the expected credit losses (ECL).

The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing a trend analysis and comparing historical information with forecast macro-economic data to determine whether the indicator describes a positive, negative or stable trend and to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(iii) Incorporation of forward-looking information (continued)

The Bank formulates three scenarios: a base case, which is the median scenario and assigned a 75% probability of occurring and two likely scenarios; being best, assigned a rating of 15% and worst, assigned a rating of 10%. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information includes economic data and forecast published by government bodies, monetary bodies and supranational organisations such as the International Monetary Fund.

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, and using the scorecard approach has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has assessed that the key drivers of its sovereign portfolio are debt to GDP ratio, current account to GDP ratio and net international reserves with weightings of 30%, 20% and 50% respectively. The drivers for the corporate portfolio are debt to GDP ratio, GDP growth and annual inflation with weightings of 10%, 30% and 60% respectively.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The assumptions underlying the ECL calculation such as how the maturity profile or the collateral values change are monitored and reviewed on a quarterly basis.

(iv) Computation of the expected credit loss (ECL)

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

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

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

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(iv) Computation of the expected credit loss (ECL) (continued)

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next twelve months (12-month PD) over or over the remaining lifetime (lifetime PD) of the obligation.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, loan to value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

Subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

The Bank has replaced the Vasicek model with a simplified scorecard in estimating its forward-looking indicator factors. This model differentiates between sovereign, corporate and retail loan exposures. A minimum of three leading macroeconomic variables are used for each asset class. There was no other significant changes in estimation techniques or significant assumptions made during the reporting period.

(v) Loss allowance

The loss allowance recognised in the period is impacted by the following factors:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

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34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

The key inputs, assumptions and techniques used for estimating impairment adopted by the Bank are as follows (continued):

(v) Loss allowance (continued)

- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following table shows reconciliations from the opening to closing balance of the loss allowance by class of financial instrument.

- **Loans and notes receivable at amortised cost:**

	2020			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Balance at 31 March 2019	138,400	31,949	207,646	377,995
Transfer from Stage 1 to Stage 2	(3,877)	17,142	-	13,265
Transfer from Stage 1 to Stage 3	(1,894)	-	64,231	62,337
Transfer from Stage 2 to Stage 3	-	(7,503)	52,974	45,471
Transfer from Stage 2 to Stage 1	904	(3,943)	-	(3,039)
Transfer from Stage 3 to Stage 2	-	52	(580)	(528)
Financial assets derecognised during year	(28,766)	(5,111)	(17,174)	(51,051)
New financial assets originated or purchased	253,773	13,176	25,048	291,997
Paydowns	(1,179)	(741)	(24,227)	(26,147)
Foreign exchange and other movements	70,870	636	19,824	91,330
Balance at 31 March 2020	**428,231**	**45,657**	**327,742**	**801,630**

	2019			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Balance at 31 March 2018 (IAS 39)	25,098	71,230	121,259	217,587
Remeasurement on 1 April 2018 (IFRS 9)	76,129	(43,173)	-	32,956
Transfer from Stage 1 to Stage 2	(3,243)	11,637	-	8,394
Transfer from Stage 1 to Stage 3	(1,345)	-	67,399	66,054
Transfer from Stage 2 to Stage 3	-	(5,372)	36,162	30,790
Transfer from Stage 3 to Stage 1	274	(1,433)	-	(1,159)
Financial assets derecognised during year	(19,134)	(5,389)	(16,596)	(41,119)
New financial assets originated or purchased	71,636	7,864	4,367	83,867
Paydowns	(11,691)	(3,412)	75,799	60,696
Foreign exchange and other movements	676	(3)	(80,744)	(80,071)
Balance at 31 March 2019	**138,400**	**31,949**	**207,646**	**377,995**

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

(v) Loss allowance (continued)

- **Debt securities at FVOCI:**

	2020
	Stage 1
	$'000
Balance at 1 April 2019	18,365
Financial assets derecognised during year	(4,633)
New financial assets originated or purchased	19,844
Foreign exchange and other movements	(361)
Balance at 31 March 2020	33,215

	2019
	Stage 1
	$'000
Balance at 1 April 2018 (IAS 39)	-
Premeasurements on 1 April 2018 (IFRS 9)	23,268
Financial assets derecognised during year	(2,979)
New financial assets originated or purchased	4,807
Foreign exchange and other movements	(6,731)
Balance at 31 March 2019	18,365

(c) Liquidity risk

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

The Bank is exposed to calls on its available cash resources from overnight deposits, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors approves the Bank's liquidity management policies and establishes limits to control risk.

The impact of Covid-19 has resulted in customers withdrawing funds at a higher rate or placing funds for a shorter period of time. The Bank has implemented a liquidity risk response strategy, including liquidity stress testing, contingency planning and proactive monitoring and projecting of liquidity needs.

Management of liquidity risk

The Bank's Treasury Department has direct responsibility for the management of the day-to-day liquidity. The Asset and Liability Committee (ALCO) provides senior management oversight of the Bank's liquidity risk exposure, within the policy and limit frameworks established by the Board.

The management of liquidity risk is carried out through various methods which include:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.
- Establishment of committed lines and mismatch limits.
- Diversification of funding sources

34. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow within the local and international markets.
- Monitoring liquidity ratios on the statement of financial position against internal and regulatory requirements.
- Maintenance of liquidity and funding contingency plans.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively. These are the key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of uncertain terms and of different types.

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

Sources of liquidity risk are regularly reviewed by the Treasury Department and ALCO to maintain a wide diversification by products and terms.

The following table presents the cash flows payable by the Bank under non-derivative financial instruments by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The carrying amounts are those reported in the statement of financial position.

	2020					
	Within 3 Months	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total Contractual Cash Flows**	**Total Carrying Amount**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities						
Securities sold under repurchase agreements	1,554,170	1,237,366	-	-	2,791,536	2,750,773
Deposits	50,270,006	16,010,052	396,458	910,478	67,586,994	67,074,512
Due to other financial institutions	-	47,308	76,702	155,251	279,261	210,723
Promissory note	1,094,583	-	-	-	1,094,583	1,086,212
Lease liabilities	9,234	28,293	136,229	-	173,756	153,456
Accounts payable	1,016,711	-	-	-	1,016,711	1,016,711
Total financial liabilities	53,944,704	17,323,019	609,389	1,065,729	72,942,841	72,292,387

34. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

	2019					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Contractual Cash Flows	Total Carrying Amount
	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities						
Securities sold under repurchase agreements	3,653,037	2,822,205	-	-	6,475,242	6,375,816
Deposits	31,582,313	6,406,006	413,889	884,429	39,286,637	38,904,121
Due to other financial institutions	-	7,657	137,101	91,574	236,332	190,927
Promissory note	1,004,304	-	-	-	1,004,304	1,000,537
Accounts payable	1,037,090	-	-	-	1,037,090	1,037,090
Total financial liabilities	37,276,744	9,235,868	550,990	976,003	48,039,605	47,508,491

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	2020			
	No later than 1 Year	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000
Loan commitments	4,950,922	-	-	4,950,922
Guarantees, acceptances and other financial liabilities	230,866	249,625	45,000	525,491
	5,181,788	249,625	45,000	5,476,413

	2019			
	No later than 1 Year	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000
Loan commitments	5,458,811	-	-	5,458,811
Guarantees, acceptances and other financial liabilities	167,200	842	45,000	213,042
	5,626,011	842	45,000	5,671,853

(d) Market risk

Market risk is the risk that the value or cash flow of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. Market risk results primarily from changes in interest rates, foreign exchange rates and equity prices.

Management of market risk

The Asset & Liability Committee has responsibility for the management of on-balance sheet risks and employs various methods and financial instruments that provide suitable hedge against specified exposures where required. This Committee monitors and measures market risk exposure through gap analysis, sensitivity analysis and stress testing within the policy and limit frameworks established by the Board.

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34. Financial Risk Management (Continued)

(d) Market risk (continued)

Management of market risk (continued)

Sensitivity analysis is a widely used risk measurement tool that allows management to make judgments regarding the potential loss in future earnings, fair values and cash flows on market sensitive instruments resulting from one or more hypothetical changes in interest rate, foreign currency exchange rates and other relevant market rates or prices over a selected period of time.

Market information and additional analysis is also used to manage risk exposure and mitigate the limitation of sensitivity analysis.

The Covid-19 pandemic has caused significant market volatility in asset prices and other securities market which has increased the Bank's market risk exposure. However, given the quality and short duration of the Bank's investment portfolio would have mitigated this risk.

The exposure to market risk includes foreign currency and interest rate risks that are managed as follows:

Foreign currency risk

Foreign currency risk is the risk of loss arising from adverse movements in foreign exchange rates.

The Bank is exposed to foreign currency risk as a result of transactions that are denominated in a currency other than the Jamaican dollar. The main currencies giving rise to the exposure are the United States Dollar, Canadian Dollar, the British Pound and the Euro. The Bank manages foreign currency risk through the establishment of limits for net open positions and matching foreign assets and liabilities as far as possible.

Foreign currency risk is the risk of loss arising from adverse movements in foreign exchange rates.

The Bank faces exposure to the effect of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets the limits on the exposure by currency and on aggregate, which are monitored daily. This limit may vary from time to time as determined by the Risk Department's assessment of volatility in exchange rates and with the approval of the Asset and Liability Committee.

The Bank's net foreign currency balances as at year-end, incurred in the normal course of business, were as follows:

	2020			
	USD	**GBP**	**CAD**	**EUR**
	'000	**'000**	**'000**	**'000**
Financial assets				
Total assets	173,518	14,248	8,217	970
Total liabilities	(185,735)	(14,239)	(7,997)	(1,416)
Net exposure	(12,217)	9	220	(446)

	2019			
	USD	**GBP**	**CAD**	**EUR**
	'000	**'000**	**'000**	**'000**
Financial assets				
Total assets	154,363	4,928	3,076	2,426
Total liabilities	(160,957)	(5,158)	(3,288)	(2,591)
Net exposure	(6,594)	(230)	(212)	(165)

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34. Financial Risk Management (Continued)

(d) Market risk (continued)

Foreign currency sensitivity

The table below represents management's assessment of the possible change in foreign exchange rates and the impact on income. There is no direct impact on other components of equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation for the possible change in foreign currency rates. The correlation of variables will have a significant effect on determining the ultimate impact on market risk, but to demonstrate their impact, variables had to be assessed on an individual basis.

	2020		2019	
	Change in Currency Rate %	Effect on Profit $'000	Change in Currency Rate %	Effect on Profit $'000
Currency:				
USD	6	(98,202)	4	(32,978)
CAD	6	1,233	4	(788)
GBP	6	96	4	(1,516)
EURO	6	(3,915)	4	(914)
USD	-2	32,734	-2	16,489
CAD	-2	(411)	-2	394
GBP	-2	(32)	-2	758
EURO	-2	1,305	-2	457

Interest rate risk

Interest rate risk is the risk of loss due to adverse changes in interest rates. The risk of loss may arise from a decline in the fair value of financial assets due to interest rate increases. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Mismatch of positions between assets and liabilities in periods of rising or declining interest rates may also result in loss of earnings. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken. This is monitored on a periodic basis.

Interest rate risk exposure is measured using gap analysis and sensitivity analysis. Interest rate risk is managed by utilising derivative instruments where necessary and maintaining an appropriate mix of variable and fixed rate instruments.

The following tables summarise the Bank's exposure to interest rate risk. They include the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The tables represent those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis.

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34. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk (continued)

	2020						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Rate Sensitive $'000	Total $'000
Financial assets							
Cash and balances with banks	15,655,023	-	-	-	-	-	15,655,023
Investment in securities, including pledged assets	5,868,450	-	1,439,600	3,035,560	1,310,298	152,409	11,806,317
Securities purchased under resale agreements	1,741,056	1,372,161	1,189,737	-	-	24,394	4,327,348
Loans and notes receivable	1,471,852	733,934	5,989,107	10,397,571	31,367,093	210,567	50,170,124
Accounts receivable	-	-	-	-	-	454,066	454,066
Total financial assets	24,736,381	2,106,095	8,618,444	13,433,131	32,677,391	841,436	82,412,878
Financial liabilities							
Securities sold under repurchase agreements including pledged securities	430,000	1,115,231	1,138,661	-	-	66,881	2,750,773
Deposits	37,119,718	12,911,610	15,599,122	364,583	740,987	338,492	67,074,512
Due to other financial institutions	-	-	46,025	65,183	99,397	118	210,723
Promissory note	-	1,071,680	-	-	-	14,532	1,086,212
Lease liabilities	2,384	4,768	22,673	123,631	-	-	153,456
Accounts payable	-	-	-	-	-	1,016,711	1,016,711
Total financial liabilities	37,552,102	15,103,289	16,806,481	553,397	840,384	1,436,734	72,292,387
Total interest rate repricing gap	(12,815,721)	(12,997,194)	(8,188,037)	12,879,734	31,837,007	(595,298)	10,120,491
Cumulative interest rate gap	(12,815,721)	(25,812,915)	(34,000,952)	(21,121,218)	10,715,789	10,120,491	

	2019						
	Within 1 Month $'000	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Non-Rate Sensitive $'000	Total $'000
Financial assets							
Cash and balances with banks	10,082,439	-	-	-	-	-	
Investment in securities, including pledged assets	1,875,000	1,250,239	1,535,370	61,559	3,854,126	188,857	8,765,151
Securities purchased under resale agreements	878,484	-	2,110,903	-	-	4,663	2,994,050
Loans and notes receivable	506,425	134,407	3,356,572	8,017,512	21,643,399	176,195	33,834,510
Accounts receivable	-	-	-	-	-	223,508	223,508
Total financial assets	13,342,348	1,384,646	7,002,845	8,079,071	25,497,525	593,223	55,899,658
Financial liabilities							
Securities sold under repurchase agreements including pledged securities	50,000	3,587,525	2,700,752	-	-	37,539	6,375,816
Deposits	18,280,896	13,122,207	6,216,791	369,029	716,768	198,430	38,904,121
Due to other financial institution	-	-	7,478	120,814	62,596	39	190,927
Promissory note	1,000,160	-	-	-	-	377	1,000,537
Accounts payable	-	-	-	-	-	1,037,090	1,037,090
Total financial liabilities	19,331,056	16,709,732	8,925,021	489,843	779,364	1,273,475	47,508,491
Total interest rate repricing gap	(5,988,708)	(15,325,086)	(1,922,176)	7,589,228	24,718,161	(680,252)	8,391,167
Cumulative interest rate gap	(5,988,708)	(21,313,794)	(23,235,970)	(15,646,742)	9,071,419	8,391,167	

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34. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk (continued)

Average effective yields by the earlier of the contractual repricing or maturity dates:

	2020					
	Immediately Rate Sensitive %	1 to 3 Month %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Financial assets						
Investment in securities	1.06	-	7.81	9.37	8.18	4.77
Securities purchased under resale agreements	2.60	4.55	4.75	-	-	3.82
Loans and notes receivable	11.38	9.57	8.67	9.81	8.39	8.83
Financial liabilities						
Deposits	1.38	3.17	3.77	2.74	2.44	2.31
Securities sold under repurchase agreements	2.50	1.17	4.57	-	-	2.82
Promissory note	-	4.32	-	-	-	4.52
Due to other financial institutions	-	-	6.10	5.89	3.77	4.93

	2019					
	Immediately Rate Sensitive %	1 to 3 Month %	3 to 12 Months %	1 to 5 Years %	Over 5 Years %	Average %
Financial assets						
Investment in securities	2.03	7.77	8.62	8.78	9.09	7.12
Securities purchased under resale agreements	2.75	-	-	4.75	-	4.12
Loans and notes receivable	11.28	10.22	9.07	11.18	8.48	9.24
Financial liabilities						
Deposits	1.85	3.37	3.51	2.70	2.48	2.65
Securities sold under repurchase agreements	2.00	1.31	4.57	-	-	2.71
Promissory note	4.52	-	-	-	-	4.52
Due to other financial institutions	-	-	7.00	6.32	5.70	6.15

(i) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(ii) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(iii) Yields are based on contractual interest rates.

Interest rate sensitivity

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's interest income in the profit and loss account and gains recognised in other comprehensive income.

34. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate sensitivity (continued)

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates based on the floating rate financial assets and financial liabilities. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate FVOCI financial assets for the gross effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

2020			2019		
Change in basis points JMD/USD	Effect on Profit	Effect on Other Comprehensive Income	Change in basis points JMD/USD	Effect on Profit	Effect on Other Comprehensive Income
	$'000	$'000		$'000	$'000
-100/-100	(302,870)	212,212	-100 / -100	(258,013)	211,294
+100/+100	302,870	(198,106)	+100 / +100	258,013	(198,134)

Equity risk

Equity risk arise from price fluctuation in equity prices. The risk arises out of holding positions in either individual stocks (non-systemic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Bank sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio, which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristics of these instruments the Bank limits the amount invested in them.

The Bank does not have an exposure to equity price sensitivity as its investments are in unquoted equities.

(e) Capital management

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

(i) To comply with the capital requirements set by the regulators;

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

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

The Board provides oversight of capital sufficiency and deployment within the Bank. It determines internal capital limits in line with its stated risk appetite based on an annual internal capital adequacy assessment process.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management employing techniques based on the guidelines developed by the Bank of Jamaica (BOJ). The required information is filed with the respective Regulatory Authorities at stipulated intervals.

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34. Financial Risk Management (Continued)

(e) Capital management (continued)

The BOJ require each regulated entity to:

(i) Hold the minimum level of the regulatory capital; and

(ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The Bank's regulatory capital consists of Tier 1 and Tier 2 capital, less prescribed deductions as follows:

(i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings less intangible assets and any net loss position arising from fair value accounting.

(ii) Tier 2 capital: provisions for losses on loans limited to a maximum of one and one quarter percent (1.25%) of the total risk weighted assets.

(iii) Prescribed deductions: investments in subsidiaries and connected entities.

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank as at the reporting date. The Bank complied with all of the externally imposed capital requirements to which it is subject.

	2020	2019
	$'000	$'000
Tier 1 capital	8,553,285	6,161,412
Tier 2 capital	489,810	367,541
Total regulatory capital	9,043,095	6,528,953
Total required capital	6,856,462	4,929,448

	2020	2019
	$'000	$'000
Risk-weighted assets -		
On-balance sheet	62,148,246	42,658,102
Off-balance sheet	4,950,922	5,671,853
Foreign exchange exposure	1,465,461	964,527
	68,564,629	49,294,482
Actual capital base to risk weighted assets	13%	13%
Required capital ratio to risk weighted assets	10%	10%

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

34. Financial Risk Management (Continued)

(f) Operational risk (continued)

The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions;
- requirement for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of control and procedures;
- requirement for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirement for the reporting of operational losses and proposed remedial action;
- development of a contingency plan;
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management and the Audit Committee.

(g) Fair value of financial instruments

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 unit absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The following methods and assumptions have been used:

(i) Investment in securities classified as fair value through other comprehensive income are measured at fair value by reference to quoted market prices or broker/dealer price quotations where available. A market is regarded as active if transactions for the assets or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques.

34. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

(ii) the carrying amounts of liquid and other assets maturing within one year is assumed to approximate their fair value. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

(iii) the carrying amounts of variable rate financial instruments is assumed to approximate their fair value

(iv) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the carrying value is assumed to be equal to their fair value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the allowance for credit losses from both book and fair values.

(v) the fair value of demand deposits and other accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.

(vi) the fair values of deposits and other liabilities having specific maturity after one year, are determined by discounting future cash flows using reporting date yields of similar instruments.

The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

There were no transfers between levels during the year.

Accounting classification and fair values:

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

	2020	
	Carrying amount	**Fair value**
	FVOCI	**Level 2**
	$'000	**$'000**
Financial assets measured at fair value		
GOJ securities	111,479	111,479
US Government agencies	667,260	667,260
BOJ certificates of deposit	5,201,190	5,201,190
Corporate bonds	5,673,980	5,673,980
	11,653,909	**11,653,909**

34. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

Accounting classification and fair values (continued):

	2019	
	Carrying amount	Fair value
	FVOCI	Level 2
	$'000	$'000
Financial assets measured at fair value		
GOJ securities	3,023,840	3,023,840
BOJ certificates of deposit	1,875,000	1,875,000
Corporate bonds	3,677,454	3,677,454
	8,576,294	**8,576,294**

Valuation techniques for investment securities classified as Level 2

The following table shows the valuation techniques used in measuring the fair value of investment securities.

Type of financial instrument	Method of estimating fair value
US$ denominated GOJ securities and corporate bonds	• 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 actual and indicative bids) • Apply price to estimate fair value
Loans and notes receivable	• The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the carrying value is assumed to be equal to their fair value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.
Demand deposits and other accounts with no specific maturity	• Considered to be the amount payable on demand on the reporting date.

35. Contingencies and Commitments

(a) Litigation

The Bank is subject to claims, disputes and legal proceedings in the normal course of business. Provision is made for such matters when in the opinion of management and together with legal advice, it is probable that a payment will be made and the amount can be reasonably estimated. At 31 March 2020, there is no litigation against the Bank, (31 March 2019: $500,000).

(b) Maintenance contract

The Bank has entered into a maintenance agreement expiring in July 2025 for computer software. The amount charged in profit or loss was $60,887,306 (2019: $58,259,000).

(c) Credit

Commitments to extend credit on terms to maturity of more than one year amounted to $4,950,922,000 (2019: $5,458,811,000).

(d) Capital expenditure

At the reporting date, commitment for capital expenditure amount to approximately $127,236,000 (2019: $271,007,000) in respect of project cost of approximately $496,496,000 (2019: $376,977,000). Of this amount, $248,633,000 has been disbursed and is included in intangible assets.

36. Significant Accounting Policies

Except for the changes explained in note 4, the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in Jamaican dollars, which is the Bank’s functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in arriving at profit or loss for the year.

36. Significant Accounting Policies (Continued)

(a) Foreign currency translation (continued)

Transactions and balances (continued)

Changes in the fair value of monetary assets denominated in foreign currencies and classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at profit or loss and other changes are recognised in other comprehensive income.

(b) 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 purposes of the financial statements, financial assets have been determined to include cash and cash equivalents, investment in securities, securities purchased under resale agreements, loans and notes receivable and accounts receivable. Financial liabilities comprise securities sold under repurchase agreements, deposits, promissory notes, due to other financial institutions and accounts payable.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement. Determined using market observable inputs, or realised through settlement.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent remeasurement

Financial assets

The Bank classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

(a) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described at note 36(b)(vii). Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.

- *Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

- *Fair value through profit or loss (FVTPL):* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

36. Significant Accounting Policies (Continued)

(a) Financial instruments (continued)

(ii) *Classification and subsequent remeasurement (continued)*:

Financial assets (continued)

(a) Debt instruments (continued)

Factors considered by the Bank in determining the business model for a Bank of assets include:

1. Past experience on how the cash flows for these assets were collected;
2. How the asset's performance is evaluated and reported to key management personnel;
3. How risks are assessed and managed; and
4. How managers are compensated.

For example, securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

(b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of profit or loss.

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Notes to the Financial Statements
31 March 2020
(expressed in Jamaican dollars unless otherwise indicated)

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent remeasurement (continued):

Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments [see note 36(b)(v)].

(iii) Derecognition of financial assets and financial liabilities

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI) is recognised in profit or loss.

Any cumulative gains or losses recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(iii) Derecognition of financial assets and financial liabilities (continued):

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Modifications

Financial assets:

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised [see (b) (iii)] and a new financial asset is recognised at fair value plus any eligible transaction costs. Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(iv) Modifications (continued)

Financial assets (continued):

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities:

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) *Measurement and gains and losses*

The 'investment securities' caption in the statement of financial position includes:

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) *Measurement and gains and losses (continued)*

For debt securities measured at FVOCI, gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL charges and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Specific financial instruments

Cash and cash equivalents

Cash comprises cash in hand, demand and call deposits with banks and very short-term balances with other brokers/dealers. Cash equivalents are highly liquid financial assets that are readily convertible to known amounts of cash (that is, with original maturities of less than three months), which are subject to insignificant risk of changes in value, and are used for the purpose of meeting short-term commitments. Cash and cash equivalents are classified and measured at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and non-restricted balances with Bank of Jamaica, items in the course of collection from other banks, items in the course of payment, and securities purchased under resale agreements.

Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Forward currency contracts

The Bank enters into forward contracts to manage its exposure to foreign exchange risk. These contracts are initially recognised at fair value on the date that they are entered into, and subsequently are remeasured at fair value at each reporting date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Forward contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) *Measurement and gains and losses (continued)*

Specific financial instruments (continued)

Forward currency contracts (continued)

Changes in the fair value of forward contracts are recognised in arriving at profit or loss. This includes contracts which, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting.

Resale and repurchase agreements

Transactions involving purchases of securities under resale agreements ('resale agreements' or reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos) are accounted for as short-term collateralised lending and borrowing, respectively.

Accordingly, securities sold under repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are measured at amortised cost.

Securities purchased under resale agreements are reported not as purchases of the securities, but as receivables and are measured in the statement of financial position at amortised cost. It is the policy of the Bank to obtain possession of collateral with a fair value in excess of the principal amount loaned under resale agreements.

Interest earned on resale agreements and interest incurred on repurchase agreements is recognised as interest income and interest expense, respectively, over the life of each agreement using the effective interest method.

Derivatives

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bond interest rate, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Bank makes use of derivatives to manage its own exposure to interest rate risk and credit risk.

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss. Separated embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Loans and notes receivables and provision for credit losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market, and that the Bank does not intend to sell immediately or in the near term.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan, including any origination fees and transaction costs, and subsequently measured at amortised cost using the effective interest method.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) *Measurement and gains and losses (continued)*

Specific financial instruments (continued)

Loans and notes receivables and provision for credit losses (continued)

An allowance for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected.

When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific allowances for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require that interest income on non-performing loans be accrued, to the extent collectible, and that the increase in the present value of impaired loans due to the passage of time be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

Write-offs are made when all or part of a loan is deemed uncollectible or is forgiven. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to provision for credit losses in arriving at net profit or loss.

Statutory and other regulatory loan loss reserve requirements that exceed the amounts required under IFRS are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

Accounts receivable

Accounts receivable are measured at amortised cost less impairment allowances.

Account payable

Accounts payable are measured at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings [other than repos, which are described in Note [36(b)(v)] are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost, with any difference between cost and redemption recognised in the profit or loss over the period of the borrowings.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) *Measurement and gains and losses (continued)*

Financial guarantees, letters of credit and undertakings

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance [calculated as described in note 36(b)(vii)]; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rates, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

(vii) Impairment

The Bank recognises loss allowances for expected credit losses (ECL) on financial assets that are debt instruments not measured at FVTPL.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(vii) Impairment (continued)

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised costs are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

36. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(vii) Impairment (continued)

Credit-impaired financial assets (continued)

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

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

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

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

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

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

36. Significant Accounting Policies (Continued)

(c) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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 future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss.

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

Freehold buildings	40 years
Leasehold improvements	The shorter of the estimated useful life and the period of the lease
Motor vehicles	5 years
Computer equipment	5 years
Other equipment, furniture and fixtures	3-5 years

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

(d) Intangible assets

Direct costs that are associated with identifiable software products controlled by the Bank that are expected to generate economic benefits beyond one year, are recognised as assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as expenses over the expected period of usage (not expected to exceed 12 months).

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

The estimated useful lives, residual values and depreciation method are reviewed each year with the effect of any change in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

36. Significant Accounting Policies (Continued)

(e) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, it is probable that the Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value, if the effect is material.

(f) Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, vacation leave; non-monetary benefits such as medical care; post-employments benefits such as pensions; and other long-term employee benefits such as termination benefits.

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 expense. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave. Post-employment benefits are accounted for as described below. Other long-term benefits are not considered material and are expensed when incurred.

The Bank participates in a defined contribution plan whereby it pays contributions to a fund operated by a fellow subsidiary. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs. Pensions are the Bank's only post-employment benefit.

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date. The Bank recognises termination benefits at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the end of the reporting period, they are discounted.

(g) Income taxes

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

(i) Current income tax

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

(ii) Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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31 March 2020
(expressed in Jamaican dollars unless otherwise indicated)

36. Significant Accounting Policies (Continued)

(h) Impairment of non-financial assets

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

(i) Income and expense recognition

Interest income and expenses:

Interest income and expense are recognised in profit or loss for using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments to its gross carrying amount of the financial asset or the amortised cost of the liability.

When calculating the effective interest rate for financial instruments, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

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

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

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

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

36. Significant Accounting Policies (Continued)

(i) Income and expense recognition (continued)

Interest income and expenses (continued):

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

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

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

Fee and commission income are recognised as the related services are performed.

Performance obligations and revenue recognition policies:

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

36. Significant Accounting Policies (Continued)

(i) Income and expense recognition (continued)

Dividend income

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

(j) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 April 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into on or after 1 April 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

36. Significant Accounting Policies (Continued)

(j) Leases (continued)

Policy applicable from 1 April 2019 (continued)

(i) As a lessee (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

The Bank recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 April 2019

As a lessee

The Bank did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

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36. Significant Accounting Policies (Continued)

(k) Related parties

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

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

(1) has control or joint control over the Bank;

(2) has significant influence over the Bank; or

(3) is a member of the key management personnel of the Bank or of a parent of the Bank.

(ii) An entity is related to the Bank if any of the following conditions applies:

(1) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

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

(6) The entity is controlled, or jointly controlled, by a person identified in (i).

(7) A person identified in (i)(1) 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).

(8) The entity, or any member of a group of which it is a part, provides key management services to the Bank or to the parent of the Bank.

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

(l) Dividend expense

Dividends to stockholders are recorded in the financial statements in the period which they are declared.

(m) New and amended standards and interpretations issued but are not yet effective

Certain new and amended standards and interpretations have been issued which are not yet effective for the current year and which the Bank has not early-adopted. The Bank has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has determined that the following are likely to have an effect on the financial statements.

(i) Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides the following definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

36. Significant Accounting Policies (Continued)

(m) New and amended standards and interpretations issued but are not yet effective (continued)

(i) (Continued)

The Bank does not expect the amendment to have a significant impact on its financial statements.

(ii) Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively for annual reporting periods beginning on or after 1 January 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New ‘bundle of rights’ approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to de-recognition will allow an entity to derecognize an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

The Bank is assessing the impact that the amendments will have on its 2021 financial statements.