JMMB Bank (Jamaica) Limited
Financial Statements
31 March 2022

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31 March 2022

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KPMG
Chartered Accountants
P.O. Box 436
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
JMMB BANK (JAMAICA) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of JMMB Bank (Jamaica) Limited, ("the Bank") set out on pages 5 to 78, which comprise the statement of financial position as at 31 March 2022, 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 2022, 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 International Code of Ethics for Professional Accountants, including International Independence Standards (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.

KPMG, a Jamaican partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

R. Tarun Handa
Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers
Nyssa A. Johnson
W. Gihan C. de Mel
Wilbert A. Spence
Rochelle N. Stephenson
Sandra A. Edwards
Karen Ragoobirsingh

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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.

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

June 22, 2022

JMMB BANK (JAMAICA) LIMITED

Profit or Loss Account
Year ended 31 March 2022
(expressed in Jamaican dollars unless otherwise indicated)

	Notes	2022 $'000	2021 $'000
Net Interest Income and Other Revenue			
Interest income calculated using the effective interest method	4(a)	7,793,096	5,721,015
Interest expense	4(a)	(3,053,539)	(1,939,173)
Net Interest Income	4(a)	**4,739,557**	**3,781,842**
Other Revenue			
Fee income	5	582,817	401,276
Foreign exchange gains on trading and translation	4(b)	1,053,276	768,926
Other income		285,223	154,208
Total other operating revenue		1,921,316	1,324,410
Net Interest Income and Other Revenue		**6,660,873**	**5,106,252**
Non-interest Expenses			
Impairment losses on financial assets	6	980,647	713,376
Staff costs	7	2,181,835	1,825,744
Bank charges		198,865	92,564
Property expenses		164,414	169,637
Depreciation and amortisation	8	236,100	166,092
Information technology costs		352,475	215,750
Marketing and corporate affairs		39,324	22,655
Professional fees		76,901	70,479
Management fees	32(b)	120,000	120,000
Regulatory costs		149,841	104,262
Irrecoverable General Consumption Tax		102,425	113,880
Asset tax		262,764	187,670
Other operating expenses		225,542	165,854
Total Non-interest Expenses		**5,091,133**	**3,967,963**
Profit before Taxation	8	1,569,740	1,138,289
Taxation	9	(134,976)	(30,521)
Profit for the Year		**1,434,764**	**1,107,768**

JMMB BANK (JAMAICA) LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended 31 March 2022
(expressed in Jamaican dollars unless otherwise indicated)

	Notes	2022 $'000	2021 $'000
Profit for the Year		1,434,764	1,107,768
Other Comprehensive (Loss)/Income			
Unrealised (losses)/gains arising on revaluation on FVOCI investments, net of tax, being other comprehensive income for the year	30	(219,735)	387,480
Total comprehensive income for the year		1,215,029	1,495,248

JMMB BANK (JAMAICA) LIMITED

Statement of Financial Position

31 March 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Notes	2022 $'000	2021 $'000
Assets			
Cash and balances with banks	11	27,697,237	31,213,586
Investment in securities	12	21,926,260	9,779,474
Securities purchased under resale agreements	13	4,014,345	2,156,453
Pledged assets	14	1,129,357	2,443,005
Loans and notes receivable	15	91,499,750	69,046,662
Accounts receivable	16	595,703	389,882
Intangible assets	17	749,421	733,051
Property, plant and equipment	18	234,595	156,870
Deferred tax assets	19	1,132,598	605,206
Right-of-use assets	25	82,737	116,710
Total Assets		149,062,003	116,640,899

JMMB BANK (JAMAICA) LIMITED

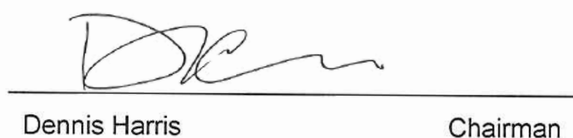
Statement of Financial Position (Continued)

31 March 2022

(expressed in Jamaican dollars unless otherwise indicated)

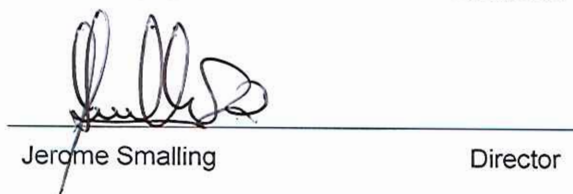
	Notes	2022 $'000	2021 $'000
Liabilities			
Securities sold under repurchase agreements	20	943,093	2,233,492
Deposits	21	115,747,156	92,109,592
Due to other financial institutions	22	11,870,450	6,075,582
Accounts payable	23	1,435,698	997,070
Promissory note	24	1,160,196	1,105,930
Lease liabilities	25	101,749	123,631
Taxation payable		370,000	276,970
Total Liabilities		131,628,342	102,922,267
Stockholders' Equity			
Share capital	26	6,932,888	4,432,888
Statutory reserve fund	27	1,605,469	1,390,254
Retained earnings reserve	28	6,465,442	5,715,442
Capital redemption reserve	29	85,488	85,488
Fair value reserve	30	70,452	290,187
Loan loss reserve	15(c)	904,254	669,281
Retained earnings		1,369,668	1,135,092
		17,433,661	13,718,632
Total Liabilities and Stockholders' Equity		149,062,003	116,640,899

Approved for issue by the Board of Directors on June 22, 2022 and signed on its behalf by:



Dennis Harris — Chairman

Archibald Campbell — Director



Jerome Smalling — Director

Carolyn DaCosta — Secretary

JMMB BANK (JAMAICA) LIMITED

Statement of Changes in Equity

Year ended 31 March 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000 Note 26	Statutory Reserve Fund $'000 Note 27	Retained Earnings Reserve $'000 Note 28	Capital Redemption Reserve $'000 Note 29	Fair Value Reserve $'000 Note 30	Loan Loss Reserve $'000 Note 15(c)	Retained Earnings $'000	Total $'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**
Profit for the year	-	-	-	-	-	-	1,107,768	1,107,768
Other comprehensive income for the year:								
Unrealised gains on FVOCI investments, net of tax	-	-	-	-	387,480	-	-	387,480
Total comprehensive income for the year	-	-	-	-	387,480	-	1,107,768	1,495,248
Transfer to loan loss reserve (note 15)	-	-	-	-	-	179,471	(179,471)	-
Transfer to retained earning reserve	-	-	900,000	-	-	-	(900,000)	-
Transfer to statutory reserve fund	-	166,165	-	-	-	-	(166,165)	-
Transactions with owners:								
Shares issued	1,500,000	-	-	-	-	-	-	1,500,000
Balances at 31 March 2021	**4,432,888**	**1,390,254**	**5,715,442**	**85,488**	**290,187**	**669,281**	**1,135,092**	**13,718,632**
Profit for the year	-	-	-	-	-	-	1,434,764	1,434,764
Other comprehensive loss for the year:								
Unrealised losses on FVOCI investments, net of tax	-	-	-	-	(219,735)	-	-	(219,735)
Total comprehensive income for the year	-	-	-	-	(219,735)	-	1,434,764	1,215,029
Transfer to loan loss reserve (note 15)	-	-	-	-	-	234,973	(234,973)	-
Transfer to retained earning reserve	-	-	750,000	-	-	-	(750,000)	-
Transfer to statutory reserve fund	-	215,215	-	-	-	-	(215,215)	-
Transactions with owners:								
Shares issued	2,500,000	-	-	-	-	-	-	2,500,000
Balances at 31 March 2022	**6,932,888**	**1,605,469**	**6,465,442**	**85,488**	**70,452**	**904,254**	**1,369,668**	**17,433,661**

JMMB BANK (JAMAICA) LIMITED

Statement of Cash Flows

Year ended 31 March 2022

(expressed in Jamaican dollars unless otherwise indicated)

	Notes	2022 $'000	2021 $'000
Cash Flows from Operating Activities			
Profit for the year		1,434,764	1,107,768
Adjustments for:			
Interest income	4(a)	(7,793,096)	(5,721,015)
Interest expense	4(a)	3,053,539	1,939,173
Net impairment loss - investment securities & receivables	6	96,952	17,842
Net impairment loss on loans and notes receivable	6	883,695	695,534
Depreciation and amortisation	17,18,25	236,100	166,092
Taxation	9	134,976	30,521
Loss on sale of property, plant and equipment		-	393
		(1,953,070)	(1,763,692)
Changes in operating assets and liabilities -			
Accounts receivable		(222,532)	61,467
Loans receivable		(23,342,213)	(19,345,216)
Accounts payable		438,627	(19,640)
Cash used in operations		(25,079,188)	(21,067,081)
Interest received		7,778,110	5,445,169
Interest paid		(3,010,219)	(1,504,143)
Taxation paid		(459,471)	(686,286)
Cash used in operating activities		(20,770,768)	(17,812,341)
Cash Flows from Investing Activities			
Acquisition of property and equipment, and intangible asset	17,18	(296,222)	(436,431)
Investments (net)		(15,139,134)	1,540,095
Securities purchased under resale agreements		-	1,490,212
Cash (used in)/provided by investing activities		(15,435,356)	2,593,876
Cash Flows from Financing Activities			
Deposits		23,508,379	24,710,347
Securities sold under repurchase agreements		(1,174,659)	(566,218)
Due to other financial institutions		5,762,879	5,816,219
Promissory note		63,225	14,920
Lease liabilities	25(iii)	(42,913)	(37,751)
Proceeds from share issue		2,500,000	1,500,000
Cash provided by financing activities		30,616,911	31,437,517
Effect of exchange rate changes on cash and cash equivalents		25,473	(127,380)
Net (decrease)/increase in cash and cash equivalents		(5,563,740)	16,091,672
Cash and cash equivalents at beginning of year		27,680,933	11,589,261
CASH AND CASH EQUIVALENTS AT END OF YEAR	11	22,117,193	27,680,933

The notes on pages 11 to 78 are an integral part of these financial statements.

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 are included in notes 35.

(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 Jamaican 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 is 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:

(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 12 and 33(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 33(b) and 35(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.

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

(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:

(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. Net Interest Income and Other Revenue from Financial Assets

(a) Net interest income

	2022 $'000	2021 $'000
Total interest income calculated using the effective interest method		
Government of Jamaica securities	336,452	230,064
US Government agencies	-	624
Bank of Jamaica Certificate of Deposit	162,905	33,110
Securities purchased under resale agreements	240,876	130,996
Other securities	410,760	254,641
Investment income	1,150,993	649,435
Loans and other receivables (including cash and cash equivalents)	6,642,103	5,071,580
	7,793,096	5,721,015
Interest expense		
Securities sold under repurchase agreements	64,767	64,857
Deposits	2,589,104	1,647,296
Other	399,668	227,020
	3,053,539	1,939,173
	4,739,557	3,781,842

(b) Other revenue from financial assets

	2022 $'000	2021 $'000
Foreign exchange gains on trading and translation	1,053,276	768,926

5. Fee Income

	2022 $'000	2021 $'000
Loans processing fees	582,817	401,276

6. Impairment Losses on Financial Assets

	2022 $'000	2021 $'000
Charged for the year on:		
Accounts receivable [note 16(b)]	18,117	3,137
Investment securities at FVOCI (note 30)	55,935	14,710
Loans and notes receivable [note 15(c)]	883,695	695,534
Securities purchased under resale agreements (note 13)	10	(5)
Amounts written off	22,890	-
	980,647	713,376

7. Staff Costs

	2022 $'000	2021 $'000
Salaries and wages	1,832,484	1,397,723
Statutory contributions	187,224	142,131
Pension contributions (note 31)	53,755	46,449
Other staff benefits	108,372	239,441
	2,181,835	1,825,744

8. Profit before Taxation

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

	2022 $'000	2021 $'000
Directors' emoluments: fees	18,174	18,006
Auditors' remuneration	16,417	15,799
Depreciation and amortisation (notes 17,18 and 25)	236,100	166,092

9. Taxation

(a) The tax charge for the year comprises:

	2022 $'000	2021 $'000
Taxation at 33⅓%	593,932	475,710
Prior year over accrual	(41,431)	-
	552,501	475,710
Deferred tax (note 19):		
Origination and reversal of temporary differences	(417,525)	(445,189)
Taxation recognised for the year	134,976	30,521

9. Taxation (Continued)

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

	2022 $'000	2021 $'000
Profit before tax	1,569,740	1,138,289
Tax at 33⅓%	523,247	379,429
Tax effect of:		
Expenses not deductible in determining taxable profit	198,497	118,381
Non-taxable income	(545,294)	(466,783)
Other adjustments	(42)	(506)
Prior year under accrual	(41,432)	-
	134,976	30,521

10. Dividends

There was no dividend payment for the year (2021: $Nil).

11. Cash and Cash Equivalents

	2022 $'000	2021 $'000
Cash and balances with banks including Bank of Jamaica	27,697,237	31,213,586
Securities purchased under resale agreements (note 13)	4,009,370	3,441,901
Cash deposit at investment brokers (note 16)	27,156	2,861
	31,733,763	34,658,348
Less:		
Statutory reserves with Bank of Jamaica (see below)	(9,616,570)	(6,977,415)
Cash and cash equivalents for statement of cash flows	22,117,193	27,680,933

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% (2021: 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 5% (2021: 5%) for Jamaican dollar cash reserves and 13% (2021: 13%) for foreign currency cash reserves.

JMMB BANK (JAMAICA) LIMITED

Notes to the Financial Statements
31 March 2022
(expressed in Jamaican dollars unless otherwise indicated)

12. Investment in Securities

	2022 $'000	2021 $'000
Securities designated as FVOCI		
Government of Jamaica (GOJ) securities	906,624	1,142,846
US Government agencies	3,066,200	-
Bank of Jamaica certificates of deposit	9,317,589	2,324,400
Corporate bonds	9,518,794	7,242,442
Equity investments	29,706	26,068
	22,838,913	10,735,756
Interest receivable	216,704	164,133
	23,055,617	10,899,889
Pledged assets (see note 14)	(1,129,357)	(1,120,415)
	21,926,260	9,779,474

The maturity profile of investments as at the reporting date is as follows:

	2022 $'000	2021 $'000
Government of Jamaica securities:		
Within 3 months	597,034	543,781
From 3 months to 1 year	257,974	532,953
Over 5 years	51,616	66,112
	906,624	1,142,846
Bank of Jamaica certificates of deposit:		
Within 3 months	3,637,799	-
From 3 months to 1 year	1,900,000	-
From 1 year to 5 years	3,779,790	2,324,400
	9,317,589	2,324,400
US Government agencies:		
Within 3 months	3,066,200	-
Equity investments - no fixed maturity	29,706	26,068
Corporate and other securities:		
Within 3 months	-	1,495,886
From 3 months to 1 year	3,581,224	-
From 1 year to 5 years	3,991,581	3,682,683
Over 5 years	1,945,989	2,063,873
	9,518,794	7,242,442
	22,838,913	10,735,756

13. Securities Purchased Under Resale Agreements

	2022 $'000	2021 $'000
Denominated in United States dollars (note 11)	4,009,370	3,441,901
Interest receivable	5,007	37,164
	4,014,377	3,479,065
Less: allowance for impairment [note 33(b)(ii)]	(32)	(22)
	4,014,345	3,479,043
Pledged assets (note 14)	-	(1,322,590)
	4,014,345	2,156,453
Allowance for impairment:		
Balance as at 1 April	22	27
Net measurement during the year (note 6)	10	(5)
Balance at 31 March	32	22

Resale agreements include balances with related parties as set out in note 32. All resale agreements mature within twelve months after the reporting date.

For the purpose of the statement of cash flows, an amount of $4,009,370,000 (2020: $3,441,901,000) is included in cash and cash equivalents (see note 11).

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 14).

The fair value of collateral held for securities purchased under resale agreements amounted to $4,978,699,000 (2021: $5,053,620,000) at the reporting date.

14. Pledged Assets

At the reporting date, investment securities were pledged as collateral for repurchase agreements (note 20) as follows:

	2022 $'000	2021 $'000
Investment in securities (note 12)	1,129,357	1,120,415
Securities purchased under resale agreements (note 13)	-	1,322,590
	1,129,357	2,443,005

15. Loans and Notes Receivable

	2022 $'000	2021 $'000
Corporate	32,868,650	27,250,393
Financial institutions	5,907,196	2,792,889
Individuals	54,588,685	40,044,467
	93,364,531	70,087,749
Less: allowance for impairment [note 15(c)]	(2,296,775)	(1,478,510)
	91,067,756	68,609,239
Interest receivable	431,994	437,423
	91,499,750	69,046,662

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15. Loans and Notes Receivable (Continued)

(a) Loans and notes receivable include an amount of $438,327,000 (2021: $1,131,673,000) receivable from employees.

(b) The aggregate amount of non-performing loans on which interest is not being accrued is $2,894,565,000 (2021: $1,547,480,000).

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

	2022 $'000	2021 $'000
Specific impairment allowance for loan losses		
Balance at 1 April	1,478,510	801,630
Charge for the year, net of recoveries (note 6)	883,695	695,534
Write-offs, net	(65,430)	(18,654)
Balance at 31 March [note 33(b)(iii)]	2,296,775	1,478,510
Regulatory provision (in excess of IFRS requirements)		
Provision at 1 April	669,281	489,810
Transferred from retained earnings	234,973	179,471
Balance at end of year	904,254	669,281
Total provision for loan losses	3,201,029	2,147,791
Allowance based on IFRS 9 - see (i) below	2,296,775	1,478,510
Additional provision based on Bank of Jamaica regulations (see (ii) below)	904,254	669,281
	3,201,029	2,147,791

(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.

16. Accounts Receivable

	2022 $'000	2021 $'000
Investment brokers (note 11)	27,156	2,861
Withholding tax recoverable	29,698	60,560
Recoverable expenses	132,016	73,866
Fellow subsidiary	-	491
Other receivables	432,964	260,118
	621,834	397,896
Less: Allowance for impairment	(26,131)	(8,014)
	595,703	389,882

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16. Accounts Receivable (Continued)

	2022 $'000	2021 $'000
(a) Aging of past due and impaired receivables		
90 – 180 days	15,378	464
181 – 360 days	1,124	470
Over 360 days	9,629	7,080
	26,131	8,014
(b) Movement in allowances for impairment:		
Balance at beginning of year	8,014	4,877
Charged to profit for the year (note 6)	18,117	3,137
Balance at end of year	26,131	8,014

17. Intangible Assets

	Computer Software $'000
Cost	
At 31 March 2020	970,421
Additions	395,115
At 31 March 2021	1,365,536
Additions	201,575
Reclassification (Note 18)	111,996
At 31 March 2022	1,679,107
Accumulated Amortisation	
At 31 March 2020	551,287
Charge for the year	81,198
At 31 March 2021	632,485
Charge for the year	130,071
Reclassification (Note 18)	167,130
At 31 March 2022	929,686
Net Book Value	
31 March 2022	749,421
31 March 2021	733,051

Additions include cost to date on the development of card services application. The cost to complete the application is estimated at $85,205,000 (2021: $103,108,876) [note 34(d)].

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18. Property, Plant and Equipment

	Freehold Land and Buildings	Equipment, Furniture and Fittings	Painting and Artworks	Leasehold Improvement	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
31 March 2020	23,359	452,701	9,984	118,680	1,546	606,270
Additions	-	41,316	-	-	-	41,316
Disposals	-	-	-	(393)	-	(393)
31 March 2021	23,359	494,017	9,984	118,287	1,546	647,193
Additions	1,642	66,139	-	26,866	-	94,647
Reclassification (note 17)	17,309	(110,397)	-	(18,908)	-	(111,996)
31 March 2022	42,310	449,759	9,984	126,245	1,546	629,844
Accumulated Depreciation						
31 March 2020	8,285	331,461	-	98,110	1,546	439,402
Charge for the year	510	44,676	-	5,735	-	50,921
31 March 2021	8,795	376,137	-	103,845	1,546	490,323
Charge for the year	834	69,802	-	1,420	-	72,056
Reclassification (note 17)	2,050	(163,228)	-	(5,952)	-	(167,130)
31 March 2022	11,679	282,711	-	99,313	-	395,249
Net Book Value						
31 March 2022	30,631	167,048	9,984	26,932	-	234,595
31 March 2021	14,564	117,880	9,984	14,442	-	156,870

19. Deferred Income Taxes

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

	2022 $'000	2021 $'000
Deferred income tax assets	1,351,322	949,127
Deferred income tax liabilities	(218,724)	(343,921)
Net deferred income tax assets	1,132,598	605,206

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

	2022			
	Balance at Beginning of Year	Recognised in Income	Recognised in Other Comprehensive Income	Balance at End of Year
	$'000	$'000	$'000	$'000
Deferred income	3,823	(1,493)	-	2,330
Property, plant and equipment	34,141	29,746	-	63,887
Interest receivable	(198,828)	(9,262)	-	(208,090)
Interest payable	282,377	12,158	-	294,535
Accounts payable	5,891	-	-	5,891
Tax credit	1,000	-	-	1,000
Unrealised gains	527,620	350,753	-	878,373
Lease liability	2,306	4,031	-	6,337
Loans	91,971	6,998	-	98,969
Investments	(145,095)	24,594	109,867	(10,634)
	605,206	417,525	109,867	1,132,598

19. 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 (continued):

	2021			
	Balance at Beginning of Year	**Recognised in Income**	**Recognised in Other Comprehensive Income**	**Balance at End of Year**
	$'000	**$'000**	**$'000**	**$'000**
Deferred income	-	3,823	-	3,823
Property, plant and equipment	30,196	3,945	-	34,141
Interest receivable	(114,219)	(84,609)	-	(198,828)
Interest payable	140,008	142,369	-	282,377
Accounts payable	5,891	-	-	5,891
Tax credit	1,000	-	-	1,000
Unrealised gains	188,021	339,599	-	527,620
Lease liability	924	1,382	-	2,306
Loans	53,291	38,680	-	91,971
Investments	48,645	-	(193,740)	(145,095)
	353,757	445,189	(193,740)	605,206

20. Securities Sold Under Repurchase Agreements

	2022 $'000	2021 $'000
Financial institutions	943,015	2,117,674
Interest payable	78	115,818
	943,093	2,233,492

Securities pledged to collateralise repurchase agreements are disclosed at note 14.

21. Deposits

	2022 $'000	2021 $'000
Personal	35,833,256	26,761,911
Financial institutions	56,209,578	21,382,065
Commercial and business enterprises	22,911,913	43,302,392
	114,954,747	91,446,368
Interest payable	792,409	663,224
	115,747,156	92,109,592

22. Due to Other Financial Institutions (Continued)

	2022 $'000	2021 $'000
Development Bank of Jamaica (a)	895,417	432,350
National Housing Trust (b)	1,900,047	523,674
Inter-American Investment Corporation (c)	8,994,239	5,070,800
	11,789,703	6,026,824
Interest payable	80,747	48,758
	11,870,450	6,075,582

(a) Amounts are due to Development Bank of Jamaica (DBJ) at interest rates of 0.5% to 7% per annum for periods up to 7 years (2021: 5% to 7% per annum for periods up to 8 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.

(b) The balances due to National Housing Trust (NHT) are at interest rates of 0.0% to 2.5% (2021: 0.05% to 2.5%) 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.

(c) The above balance consist of US$58,667,000 (2021: US$35,000,000) due to Inter-American Investment Corporation (IDB Invest), at interest rates of 4.1286% and 4.4375% (2021: 4.4375%) per annum for a period up to 5 years. The loan is for on-lending to Small and Medium Enterprises (SME'S) within the terms and conditions specified by the IDB Invest and are repayable in semi-annual instalments.

23. Accounts Payable

	2022 $'000	2021 $'000
Items in the process of settlement	292,821	124,427
Owed to related parties [note 32(a)]	163,844	74,870
Payroll taxes	40,659	27,965
General Consumption Tax payable	12,698	23,809
Accrued expenses	251,410	236,836
Customers' loan settlement	505,768	410,421
Other payables	168,498	98,742
	1,435,698	997,070

24. Promissory Note

	2022 $'000	2021 $'000
Principal	1,149,825	1,086,600
Interest payable	10,371	19,330
	1,160,196	1,105,930

This represents a short-term unsecured funding facility from Citibank, N.A. of US$7,500,000 at an interest rate of 2.64% (2021: 4.51%) for the period 29 November 2021 to 25 May 2022.

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25. Leases

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.

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

	2022	2021
	$'000	$'000
Right-of-use assets-buildings:		
Balance at 1 April	116,710	150,683
Depreciation charge for the year	(33,973)	(33,973)
Balance at 31 March	82,737	116,710
Lease liabilities:		
Current	39,203	32,480
Non-current	62,546	91,151
	101,749	123,631

(ii) Amounts recognised in the profit or loss account:

	2022	2021
	$'000	$'000
Depreciation charge on right-of-use assets	33,973	33,973
Interest expense on lease liabilities	6,845	7,925
Expense relating to short-term and low-value leases (including in property expenses)	17,247	19,517

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

	2022	2021
	$'000	$'000
Total cash outflows for leases	42,913	37,751

(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 $163,014,000 (2021: $196,385,000).

26. Share Capital

	2022 ‘000	2021 ’000
Authorised:		
1,800,000,000 ordinary shares at no par value	1,800,000	1,800,000
100,000,000 convertible preference shares at no par value	100,000	100,000

	$‘000	$’000
Issued and fully paid:		
1,329,801,325 (2021: 998,675,497) ordinary shares of no-par value	6,932,888	4,432,888

On 23 May 2021 and 25 February 2022, the Bank issued 198,675,497 and 132,450,331 ordinary shares at a price of $7.55 each to the existing shareholder, JMMB Group Limited, based on resolutions approved by the Board. The shares were fully settled at the year end.

27. 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% (2021: 15%).

28. 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 $750,000,000 (2021: $900,000,000).

29. 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.

30. 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:

	2022 $’000	2021 $’000
Balance at beginning of year	290,187	(97,293)
Expected credit loss for the year (note 6)	55,935	14,710
Unrealised (losses)/gains on investments	(385,537)	566,530
Deferred tax adjustment (note 19)	109,867	(193,740)
Other comprehensive (loss)/income for the year	(219,735)	387,480
Balance at end of year	70,452	290,187

31. 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 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 $53,755,000 (2021: $46,449,000) [see note 7].

32. 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:

	2022 $'000	2021 $'000
Cash and cash equivalents		
Fellow subsidiaries	1,617,537	566,070
Securities purchased under resale agreements:		
Fellow subsidiaries	1,555,218	3,479,066
Loans and notes receivable:		
Other related parties	76,606	79,583
Key management personnel, including directors	566,996	599,317
	643,602	678,900

	2022 $'000	2021 $'000
Accounts receivable:		
Fellow subsidiaries	-	491
Deposits:		
Parent company	89,804	45,221
Fellow subsidiaries	27,746,177	25,595,018
Other related parties	2,441,955	2,452,076
Key management personnel including directors	197,311	137,706
	30,475,247	28,230,021
Accounts payable:		
Fellow subsidiary (note 23)	163,844	74,870
Other related parties	415	170
Key management personnel including directors	1,582	1,478
	165,841	76,518
Securities sold under repurchase agreements:		
Other related parties (i)	943,093	886,231

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

32. Related Party Transactions and Balances (Continued)

(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:

	2022 $'000	2021 $'000
Interest earned:		
Other related party	7,033	10,244
Fellow subsidiary	233,131	119,410
Key management personnel including directors	40,462	41,794
	280,626	171,448
Other income:		
Parent company	2	-
Fellow subsidiary	69,786	402,877
Other related parties	124,270	35,895
Key management personnel including directors	2,556	1,681
	196,614	440,453
Management fees:		
Fellow subsidiary	120,000	120,000
Interest expense:		
Parent company	410	146
Fellow subsidiary	888,659	542,994
Other related parties	60,164	52,122
Key management personnel including directors	1,749	1,602
	950,982	596,864
Other expenses:		
Fellow subsidiaries	395,501	162,582
Other related parties	58	102
Key management personnel including directors	2,616	-
	398,175	162,684

(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:

	2022 $'000	2021 $'000
Staff costs - (included in staff costs - note 7)	263,549	235,808

33. 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.

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.

33. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

(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

In April 2022 the Government of Jamaica lifted all Covid-19 pandemic related restrictions, similar actions were taken in other territories of operation. This follows months of gradual easing of restrictions both locally and internationally as the world prepares to return to a level of normalcy in spite of the continued presence of the virus. This has been made possible through the widespread use of vaccines as well as the presence of less severe strains of the virus which helps to develop herd immunity over time. While the virus is likely to be prevalent for the foreseeable future and further waves of infection are likely, the management through large scale lockdowns is a less likely outcome despite being used in some places like China. The accommodative stance taken by local regulators during the height of the pandemic has been reduced and removed in some cases with the large-scale accommodation arrangements that were offered by most financial institutions being reduced significantly.

33. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

Impact of Covid-19 (continued)

Going forward we expect to see a gradual recovery in all the territories of operation. The Jamaican economy has seen a reopening of all sectors that were previously restricted, including the entertainment sector. It is anticipated that over the medium term, most sectors should return to normality. Tourism has seen a notable recovery with the sector recording growth of 76.2% for the Oct-Dec-2021 quarter. Overall, the Jamaican economy is estimated to have grown by 4.4% for the 2021 calendar year and about 6% to 7% for the 2021/22 fiscal year.

The Group continues to monitor its exposure to systemic risk and has continues to focus on active management of capital, liquidity and operational risks.

There is a framework in place to ensure that all entities within the Group are adequately capitalized through the Internal Capital Adequacy Assessment Process (ICAAP) and that these entities have sufficient liquid assets and ready access to financing to support business operations and growth. Furthermore, the Group has developed contingency plans to ensure that the impact of any unforeseen events is manageable and to facilitate timely responses. The Group maintains its Business Continuity Plan (BCP) to ensure that our clients, team members and other key stakeholders remain safe and that the Group is prepared for any eventuality.

Despite the gradual reduction of the impacts of the pandemic and reopening of the economy, management has adopted several measures specifically around financial risk management. These measures include the following:

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

(ii) Ensuring that the Group's recovery plan for banking and investments subsidiaries is kept up to date. The key aspects of the plan include:

- Measures to secure sufficient funding and adequate availability;
- Contingency arrangements that enable continuation of operations as recovery measures are being implemented;
- Actions that can be taken to strengthen the entity's capital base;
- A clear escalation and decision-making process to ensure that the plan can be executed in a timely manner; and
- Crisis Management and Communication plan to ensure that stakeholders (internal and external) are given timely and appropriate information during any recovery process.

(iii) Keeping close communication with our clients and supporting them through the use of payment accommodations where appropriate as well as restructuring options to provide more appropriate payment arrangements and modification of loan terms and conditions based on clients' specific situation. Other special arrangements with clients, such as amending their collateral/margin requirements on select products based on their needs continue to be utilized in some cases.

33. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

Ukraine Russia

The Group has evaluated events occurring after 31st March, 2022 in order to assess and determine the need for potential recognition or disclosure in these financial statements. Such events were evaluated through to, the date these financial statements were available to be issued.
Based upon this evaluation, the Group has determined the following subsequent event requires disclosure:

- The recent action of Russian military forces and support personnel in Ukraine has escalated tensions between Russia and the U.S., NATO, the EU and the U.K. Certain jurisdictions have imposed, and are likely to impose material additional, financial and economic sanctions and export controls against certain Russian entities and/or individuals.

- Commencing from the week of February 21, 2022, the U.S., the U.K., and the EU each imposed packages of financial and economic sanctions that, in various ways, constrain transactions with numerous Russian entities and individuals; transactions in Russian sovereign debt; and investment, trade, and financing to, from, or in certain regions of Ukraine.

- While the Group does not have direct exposures in Russia or Ukraine, it continues to monitor the potential indirect macroeconomic and financial market impacts from the tensions and conflict in order to mitigate its exposures and risks.

Climate Related Risks

Climate change presents immediate and long-term risks to the Group and its clients with the risks expected to increase over time. Climate change risk refers to the risk of loss arising from climate change and is comprised of both physical risk and transition risk. Physical risk considers how chronic and acute climate change (e.g. increased storms, drought, fires, floods) can directly damage physical assets or otherwise impact their value or productivity.

Transition risk considers how changes in policy, technology, business practices and market preferences to address climate change can lead to changes in the value of assets. Climate change risk is an overarching risk that can act as a driver of other categories of risk, such as credit risk from obligors exposed to high climate risk, reputational risk from increased stakeholder concerns about financing high carbon industries and operational risk from physical climate risks to the Bank's facilities.

The Group currently identifies climate change risk as an emerging risk within its enterprise risk management framework. Emerging risks are risks or thematic issues that are either new to the landscape, or in the case of climate risk, existing risks that are rapidly changing or evolving in an escalating fashion, which are difficult to assess due to limited data or other uncertainties.

Over the last fiscal year, the JMMB Group has made further progress in developing a comprehensive environmental and social policy geared at enhancing and complementing our existing lending policies, guidelines and business practices to better manage sustainability challenges and promote responsible growth across our core business lines. This will be cascaded throughout the Group in the upcoming fiscal year. Climate risk is a new and emerging area and will also be assessed in more detail in the upcoming year.

33. Financial Risk Management (Continued)

(a) Introduction and overview (continued)

Climate Related Risks (continued)

While there is no formal climate related policy in place the Group ensures that there are mitigants in place for climate related events such as insurance for its physical assets as well as assets held as collateral for loan facilities. There is also a BCP in place to ensure that the Group can operate in situations where climate related disruptions to business may occur. The Group recognizes the growing importance of this area and will be exploring methodologies for identifying and quantifying how climate risks could impact the Group and the individual credit profiles of its clients across various sectors. This will not only help the Group better understand its clients' businesses and climate-related risks, but will also eventually be a source of climate data. With this said, we acknowledge that we are in the very early stages of developing this framework.

(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 deposits 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.

33. 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.

33. 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:

	2022			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Credit grade				
Standard monitoring	85,036,369	4,139,035	-	89,175,404
Special monitoring	87,337	1,207,225	-	1,294,562
Default	-	-	2,894,565	2,894,565
	85,123,706	5,346,260	2,894,565	93,364,531
Loss allowance [note 33(b)(iii)]	(866,815)	(292,811)	(1,137,149)	(2,296,775)
	84,256,891	5,053,449	1,757,416	91,067,756

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33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

Loans and notes receivables at amortised cost (continued):

	2021			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Credit grade				
Standard monitoring	63,604,941	3,241,622	-	66,846,563
Special monitoring	2,412	1,691,294	-	1,693,706
Default	-	-	1,547,480	1,547,480
	63,607,353	4,932,916	1,547,480	70,087,749
Loss allowance [note 33(b)(iii)]	(771,594)	(209,411)	(497,505)	(1,478,510)
	62,835,759	4,723,505	1,049,975	68,609,239

(ii) Credit quality analysis

	2022			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Ageing of loans and notes receivable				
Neither past due nor impaired	76,895,213	1,734,864	4,840	78,634,917
Past due 1-30 days	8,228,492	264,975	-	8,493,467
Past due 31-60	-	2,610,038	-	2,610,038
Past due 61-90	-	736,383	127,661	864,044
More than 90 days	-	-	2,762,065	2,762,065
	85,123,706	5,346,260	2,894,566	93,364,531

	2021			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Ageing of loans and notes receivable				
Neither past due nor impaired	59,036,618	2,491,216	-	61,527,834
Past due 1-30 days	4,570,735	271,650	-	4,842,385
Past due 31-60	-	1,686,555	-	1,686,555
Past due 61-90	-	483,495	-	483,495
More than 90 days	-	-	1,547,780	1,547,780
	63,607,353	4,932,916	1,547,480	70,087,749

The Bank held collateral in respect of loans that are individually impaired, as per the table above, excluding unsecured loans, amounting to $2,799,298,000 (2021: $1,527,392,000) at their fair value.

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33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(ii) Credit quality analysis (continued)

Ageing of impaired loans

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

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

	2022 $'000	2021 $'000
Current	4,840	11,404
1 - 30 days	-	7,798
31 - 60 days	-	12,094
61- 90 days	16,001	11,867
91 - 120 days	421,249	50,241
121 – 360	535,720	175,687
Over 360 days	1,098,184	494,373
	2,075,994	763,464

Securities purchased under resale agreements at amortised cost:

	2022 Stage 1 $'000	2021 Stage 1 $'000
Credit grade		
Watch	4,009,370	3,441,901
Loss allowance (note 13)	(32)	(22)
	4,009,338	3,441,879

Debts securities at FVOCI:

	2022 Stage 1 $'000	2021 Stage 1 $'000
Credit grade		
Watch	22,838,913	10,735,756
Loss allowance (note 33(b) (v))	(110,272)	(51,541)

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33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iii) Exposure to credit risk

Loans

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

	2022 $'000	2021 $'000
Construction, land development and real estate acquisition	6,654,469	8,873,195
Distribution	5,556,876	6,636,422
Financial institutions	1,134,100	383,647
Mining, quarrying and processing	1,483,266	-
Manufacturing and utilities	3,323,854	2,529,774
Personal	52,432,702	38,624,891
Professional and other services	18,614,370	9,240,750
Tourism and entertainment	1,940,528	1,125,834
Transport, storage and communication	1,259,349	1,119,064
Electricity, gas and water	584,167	697,123
Entertainment	122,193	436,837
Food and beverage services	454	136
Agriculture	217,236	363,401
Overseas residents	33,764	36,914
Renewable energy systems	7,203	18,727
Other	-	1,034
Total	93,364,531	70,087,749
Less: Allowance for impairment [note 15(c), 33(b)(i)]	(2,296,775)	(1,478,510)
	91,067,756	68,609,239
Interest receivable	431,994	437,423
	91,499,750	69,046,662

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.

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.

33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iii) Exposure to credit risk (continued)

Repossessed collateral (continued)

The carrying value of the loans on which the collateral was repossessed during the year is $36,847,000 (2021: $44,275,000).

Investments

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

	2022 $'000	2021 $'000
Government of Jamaica	906,624	1,142,846
US Government agencies	3,066,200	-
Bank of Jamaica certificates of deposit	9,317,589	2,324,400
Corporate	9,518,794	7,242,442
Equity investments	29,706	26,068
	22,838,913	10,735,756
Interest receivable	216,704	164,133
	23,055,617	10,899,889

(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 (2021: no collateral held).

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	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Against neither past due nor impaired financial assets:				
Cash secured	4,475,109	1,970,908	-	-
Property	58,311,849	44,069,889	-	-
Debt securities	4,757,595	5,111,595	4,978,799	5,053,620
Liens on motor vehicles	22,099,030	19,458,074	-	-
Total carried forward – page 37	89,643,583	70,610,466	4,978,799	5,053,620

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33. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

	Loans and notes receivable		Resale agreements	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Total brought forward – page 36	89,643,583	70,610,466	4,978,799	5,053,620
Against past due but not impaired financial assets:				
Cash secured	96,853	405,124	-	-
Property	10,399,203	5,307,911	-	-
Debt securities	7,984	-	-	-
Liens on motor vehicles	3,401,966	2,343,112	-	-
	13,905,986	8,056,147	-	-
Against past due and impaired financial assets:				
Cash secured	-	2,308	-	-
Property	1,846,023	1,000,440	-	-
Liens on motor vehicles	924,231	524,644	-	-
	2,770,254	1,527,392	-	-
	106,319,823	80,194,005	4,978,699	5,053,62

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:

	2022				
	Cash and cash equivalents	Loans and notes receivable	Resale agreements	Investment securities	Total
	$'000	$'000	$'000	$'000	$'000
Concentration by sector:					
Government of Jamaica	-	-	-	906,624	906,624
Sovereign bonds	-	-	-	11,592,635	11,592,635
Bank of Jamaica	10,547,410	-	-	9,317,589	19,864,999
Corporate		32,747,016	-	1,022,065	33,769,081
Financial institutions	17,149,827	5,839,269	4,014,345	-	27,003,441
Retail		52,913,465	-	-	52,913,465
	27,697,237	91,499,750	4,014,345	22,838,913	146,050,245
Concentration by location:					
Jamaica	18,741,257	81,274,148	4,014,345	16,616,357	120,646,107
North America	5,454,760	3,065,297	-	3,066,200	11,586,257
Trinidad and Tobago		31,661	-	2,668,830	2,700,491
Other	3,501,220	7,128,644	-	487,526	11,117,390
	27,697,237	91,499,750	4,014,345	22,838,913	146,050,245

33. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

	2021				
	Cash and cash equivalents	**Loans and notes receivable**	**Resale agreements**	**Investment securities**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Concentration by sector:					
Government of Jamaica	-	-	-	1,142,846	1,142,846
Sovereign bonds	-	-	-	1,245,264	1,245,264
Bank of Jamaica	12,801,062	-	-	2,324,400	15,125,462
Corporate	-	27,241,666	-	6,023,246	33,264,912
Financial institutions	18,412,524	2,815,501	3,479,043	-	24,707,068
Retail	-	38,989,495	-	-	38,989,495
	31,213,586	69,046,662	3,479,043	10,735,756	114,475,047
Concentration by location:					
Jamaica	16,786,369	63,879,052	3,479,043	7,994,606	92,139,070
North America	10,028,168	1,367,097	-	-	11,395,265
Trinidad and Tobago	-	6,476	-	2,123,961	2,130,437
Other	4,399,049	3,794,037	-	617,189	8,810,275
	31,213,586	69,046,662	3,479,043	10,735,756	114,475,047

(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.

- 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).

33. 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:

(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 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.

33. 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 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 40 realized default rates as derived from the average 12-month through-the-cycle (TTC) transition matrices, as published by the rating agency.

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.

33. 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)

Generating the term structure of PD (continued):

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.

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

33. 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):

(ii) *Definition of default (continued)*

- 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.

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.

33. 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 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 annual growth rate and annual inflation with weightings of 10%, 60% and 30% 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.

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.

33. 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)

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;
- 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.

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33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

(v) Loss allowance (continued)

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:**

	2022			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Balance at 1 April 2021	771,594	209,411	497,505	1,478,510
Transfer from Stage 1 to Stage 2	(30,187)	30,187	-	-
Transfer from Stage 1 to Stage 3	(19,334)	-	19,334	-
Transfer from Stage 2 to Stage 3	-	(56,668)	56,668	-
Transfer from Stage 2 to Stage 1	33,587	(33,587)	-	-
Financial assets derecognised during year	(88,760)	(80,945)	(83,666)	(253,371)
New financial assets originated or purchased	397,907	176,381	55,440	629,728
Paydowns	(180,411)	(47,908)	(29,045)	(257,364)
Increases	354,429	301,882	42,961	699,272
Foreign exchange and other movements	(372,010)	(205,942)	577,952	-
Balance at 31 March 2022	866,815	292,811	1,137,149	2,296,775

	2021			
	Stage 1 $'000	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Balance at 31 March 2020	428,231	45,657	327,742	801,630
Transfer from Stage 1 to Stage 2	(31,994)	31,994	-	-
Transfer from Stage 1 to Stage 3	(3,566)	-	3,566	-
Transfer from Stage 2 to Stage 3	-	(4,371)	4,371	-
Transfer from Stage 2 to Stage 1	8,530	(8,530)	-	-
Transfer from Stage 3 to Stage 2	(269,279)	(40,751)	(325,158)	(635,188)
Financial assets derecognised during year	368,335	20,159	26,052	414,546
New financial assets originated or purchased	46,630	(1,982)	97,603	142,251
Paydowns	15,483	1,620	37,690	54,793
Foreign exchange and other movements	209,224	165,615	325,639	700,478
Balance at 31 March 2021	771,594	209,411	497,505	1,478,510

33. Financial Risk Management (Continued)

(b) Credit risk (continued)

(v) Expected credit loss measurement (continued)

(v) Loss allowance (continued)

- **Debt securities at FVOCI:**

	2022
	Stage 1
	$'000
Balance at 1 April 2021	51,541
Financial assets derecognised during year	(1,846)
New financial assets originated or purchased	29,133
Foreign exchange and other movements	31,444
Balance at 31 March 2022	110,272

	2021
Balance at 1 April 2020	33,215
Financial assets derecognised during year	(2,318)
New financial assets originated or purchased	16,331
Foreign exchange and other movements	4,313
Balance at 31 March 2021	51,541

(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.

33. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Management of liquidity risk (continued)

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
- 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.

	2022					
	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	944,817	-	-	-	944,817	943,093
Deposits	87,358,332	28,254,665	298,298	825,721	116,737,016	115,747,156
Due to other financial institutions	841	2,499	10,906,289	3,327,066	14,236,695	11,870,450
Promissory note	1,164,771	-	-	-	1,164,771	1,160,196
Lease liabilities	10,911	33,057	65,716	-	109,684	101,749
Accounts payable	1,435,698	-	-	-	1,435,698	1,435,698
Total financial liabilities	90,915,370	28,290,221	11,270,303	4152,787	134,628,681	131,258,342

33. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

	2021					
	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	887,869	1,387,967	-	-	2,275,836	2,233,492
Deposits	63,382,085	28,435,436	256,850	776,259	92,850,630	92,109,592
Due to other financial institutions	-	2,623	6,608,945	872,096	7,483,664	6,075,582
Promissory note	1,110,898	-	-	-	1,110,898	1,105,930
Lease liabilities	9,512	29,149	98,359	-	137,020	123,631
Accounts payable	997,070	-	-	-	997,070	997,070
	66,387,434	29,855,175	6,964,154	1,648,355	104,855,118	102,645,297

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

	2022			
	No later than 1 Year	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000
Loan commitments	4,419,680	3,525,387	-	7,945,067
Guarantees, acceptances and other financial liabilities	1,744,774	103,177	-	1,847,951
	6,164,454	3,628,564	-	9,793,018

	2021			
	No later than 1 Year	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000
Loan commitments	3,866,870	-	-	3,866,870
Guarantees, acceptances and other financial liabilities	298,557	-	45,500	344,057
	4,165,427	-	45,500	4,210,927

(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.

33. 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.

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:

	2022			
	USD	**GBP**	**CAD**	**EUR**
	'000	**'000**	**'000**	**'000**
Financial assets				
Total assets	271,990	16,415	9,672	5,817
Total liabilities	(314,396)	(16,306)	(9,541)	(5,439)
Net exposure	(42,406)	109	131	378

	2021			
	USD	**GBP**	**CAD**	**EUR**
	'000	**'000**	**'000**	**'000**
Financial assets				
Total assets	231,719	16,501	11,332	3,759
Total liabilities	(235,303)	(15,383)	(9,840)	(3,721)
Net exposure	(3,584)	1,118	1,492	38

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33. 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.

	2022		2021	
	Change in Currency Rate %	Effect on Profit $'000	Change in Currency Rate %	Effect on Profit $'000
Currency:				
USD	8	(520,110)	6	(31,155)
CAD	8	1,295	6	10,601
GBP	8	1,752	6	13,344
EURO	8	5,075	6	387
USD	-2	130,028	-2	10,385
CAD	-2	(324)	-2	(3,534)
GBP	-2	(438)	-2	(4,448)
EURO	-2	(1,269)	-2	(129)

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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33. Financial Risk Management (Continued)

(d) Market risk (continued)

Interest rate risk (continued)

	2022						
	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	27,697,237	-	-	-	-	-	27,697,237
Investment in securities, including pledged assets	6,703,999	597,034	5,739,198	7,771,371	1,997,605	246,410	23,055,617
Securities purchased under resale agreements	2,377,909	1,631,461	-	-	-	4,975	4,014,345
Loans and notes receivable	3,967,321	708,669	10,336,458	13,369,907	62,685,401	431,994	91,499,750
Accounts receivable	-	-	-	-	-	595,703	595,703
Total financial assets	40,746,466	2,937,164	16,075,656	21,141,278	64,683,006	1,279,082	146,862,652
Financial liabilities							
Securities sold under repurchase agreements including pledged securities	-	943,015	-	-	-	78	943,093
Deposits	61,415,904	25,261,635	27,352,975	243,183	681,050	792,409	115,747,156
Due to other financial institutions	-	833	2,454	9,297,958	2,488,458	80,747	11,870,450
Promissory note	-	1,149,825	-	-	-	10,371	1,160,196
Lease liabilities	3,157	6,358	29,689	62,545	-	-	101,749
Accounts payable	-	-	-	-	-	1,435,698	1,435,698
Total financial liabilities	61,419,061	27,361,666	27,385,118	9,603,686	3,169,508	2,319,303	131,258,342
Total interest rate repricing gap	(20,672,595)	(24,424,502)	(11,309,462)	11,537,592	61,513,498	(1,040,221)	15,604,310
Cumulative interest rate gap	(20,672,595)	(45,097,097)	(56,406,559)	(44,868,967)	16,644,531	15,604,310	

	2021						
	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	31,213,586	-	-	-	-	-	31,213,586
Investment in securities, including pledged assets	-	2,039,667	532,953	6,007,083	2,129,985	190,201	10,899,889
Securities purchased under resale agreements	1,032,709	2,409,171	-	-	-	37,163	3,479,043
Loans and notes receivable	4,617,581	2,015,972	4,571,967	12,585,520	44,818,198	437,424	69,046,662
Accounts receivable	-	-	-	-	-	389,882	389,882
Total financial assets	36,863,876	6,464,810	5,104,920	18,592,603	46,948,183	1,054,670	115,029,062
Financial liabilities							
Securities sold under repurchase agreements including pledged securities	-	886,194	1,231,480	-	-	115,818	2,233,492
Deposits	42,828,937	20,181,163	27,589,891	205,464	640,912	663,225	92,109,592
Due to other financial institutions	-	-	2,485	5,398,041	626,298	48,758	6,075,582
Promissory note	-	1,086,600	-	-	-	19,330	1,105,930
Lease liabilities	2,587	5,210	24,682	91,152	-	-	123,631
Accounts payable	-	-	-	-	-	997,070	997,070
Total financial liabilities	42,831,524	22,159,167	28,848,538	5,694,657	1,267,210	1,844,201	102,645,297
Total interest rate repricing gap	(5,967,648)	(15,694,357)	(23,743,618)	12,897,946	45,680,973	(789,531)	12,383,765
Cumulative interest rate gap	(5,967,648)	(21,662,005)	(45,405,623)	(32,507,677)	13,173,296	12,383,765	

33. 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:

	2022					
	Immediately Rate Sensitive	1 to 3 Month	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Financial assets						
Investment in securities	2.44	0.65	7.38	6.13	7.92	5.37
Securities purchased under resale agreements	3.71	5.79	-	-	-	4.15
Loans and notes receivable	8.93	7.66	8.39	9.18	7.94	8.22
Financial liabilities						
Deposits	1.54	4.06	4.37	3.46	2.26	2.78
Securities sold under repurchase agreements	-	0.75	-	-	-	0.75
Promissory note	-	2.64	-	-	-	2.64
Due to other financial institutions	-	5.50	6.85	4.33	1.79	3.80

	2021					
	Immediately Rate Sensitive	1 to 3 Month	3 to 12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Financial assets						
Investment in securities	-	8.07	2.44	6.53	8.39	6.99
Securities purchased under resale agreements	2.25	4.64	-	-	-	3.92
Loans and notes receivable	8.89	8.90	9.16	8.97	8.26	8.51
Financial liabilities			-			
Deposits	1.36	2.56	3.41	2.97	2.24	2.25
Securities sold under repurchase agreements	-	0.75	4.57	-	-	2.97
Promissory note	-	4.51	-	-	-	4.51
Due to other financial institutions	-	-	6.60	4.52	2.25	4.28

(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 and losses recognised in other comprehensive income.

33. 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.

2022			2021		
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
-50/-50	(274,949)	158,948	-100/-100	(439,573)	316,868
+300/+150	1,749,428	(602,647	+100/+100	439,573	(298,397)

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.

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.

33. Financial Risk Management (Continued)

(e) Capital management (continued)

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.

	2022	2021
	$'000	$'000
Tier 1 capital	14,254,378	10,805,533
Tier 2 capital	904,254	671,306
Total regulatory capital	15,158,632	11,476,839
Total required capital	11,350,272	8,830,291

	2022	2021
	$'000	$'000
Risk-weighted assets -		
On-balance sheet	107,872,943	82,667,324
Off-balance sheet	5,444,272	3,866,872
Foreign exchange exposure	185,505	1,769,709
	113,502,720	88,303,905
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.

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.

33. Financial Risk Management (Continued)

(f) Operational risk (continued)

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.

(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.

33. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

The following methods and assumptions have been used:

(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.

	2022	
	Carrying Amount	**Fair value**
	FVOCI	**Level 2**
	$'000	**$'000**
Financial assets measured at fair value		
GOJ securities	906,624	906,624
US Government securities	3,066,200	3,066,200
BOJ certificates of deposit	9,317,589	9,317,589
Corporate bonds	9,518,794	9,518,794
	22,809,207	**22,809,207**

	2021	
	Carrying amount	**Fair value**
	FVOCI	**Level 2**
	$'000	**$'000**
Financial assets measured at fair value		
GOJ securities	1,142,846	1,142,846
BOJ certificates of deposit	2,324,400	2,324,400
Corporate bonds	7,242,442	7,242,442
	10,709,688	**10,709,688**

Valuation techniques for investment securities classified as Level 2

33. Financial Risk Management (Continued)

(g) Fair value of financial instruments (continued)

Accounting classification and fair values (continued):

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.

34. 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 2022 and 2021 there is no litigation against the Bank.

(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 $108,942,000 (2021: $106,857,000).

(c) Credit

Commitments to extend credit on terms to maturity of more than one year amounted to $2,131,831,000 (2021: $3,866,870,000).

(d) Capital expenditure

At the reporting date, commitment for capital expenditure amount to approximately $705,580,000 (2021: $103,108,876) in respect of project cost of approximately $785,981,000 (2021: $903,536,000). Of this amount, $242,633,000 (2021: $494,069,935) has been disbursed and is included in intangible assets (see note 17).

35. Significant Accounting Policies

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.

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.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(i) Initial recognition and measurement (continued)

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.

(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 35(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 FVTPL, are measured at fair value through other comprehensive income (FVOCI).

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent remeasurement (continued)

Financial assets (continued)

(a) Debt instruments (continued)

- *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.

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 bank 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.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(ii) Classification and subsequent remeasurement (continued):

(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.

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 35(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.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

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

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.

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.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(iv) Modifications (continued)

Financial assets (continued):

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.

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. 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

Financial liabilities:

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.

35. 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.

35. 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.

35. 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 [35(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.

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.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(v) Measurement and gains and losses (continued)

Specific financial instruments (continued)

Financial guarantees, letters of credit and undertakings (continued)

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 35(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.

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’.

35. Significant Accounting Policies (Continued)

(b) Financial instruments (continued)

(vii) Impairment (continued)

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.

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.

35. 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 (continued):

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.

(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.

35. Significant Accounting Policies (Continued)

(c) Property, plant and equipment (continued)

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.

(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.

35. Significant Accounting Policies (Continued)

(f) Employee benefits (continued)

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.

(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.

35. Significant Accounting Policies (Continued)

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

(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.

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.

35. Significant Accounting Policies (Continued)

(i) Income and expense recognition (continued)

Interest income and expenses (continued):

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.

35. 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

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.

(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.

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.

35. Significant Accounting Policies (Continued)

(j) Leases (continued)

(i) As a lessee (continued)

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'.

(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.

35. Significant Accounting Policies (Continued)

(k) Related parties (continued)

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

(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

At the date of authorisation of the financial statements, certain new standards and amendments to existing standards and interpretations have been issued which are not yet effective and which the company has not early-adopted. The company has assessed all such new standards, amendments to existing standards and interpretations with respect to its operations and has determined that the following are likely to have an effect on the financial statements.

- Amendments to IAS 37 *Provision, Contingent Liabilities and Contingent Assets* is effective for annual periods beginning on or after January 1, 2022 and clarifies those costs that comprise the costs of fulfilling the contract.

  The amendments clarify that the ‘costs of fulfilling a contract’ comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the ‘incremental cost’ approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

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

- Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 9 *Financial Instruments* and IFRS 16 *Leases* and are effective for annual periods beginning on or after January 1, 2022.

  (i) IFRS 9 *Financial Instruments* amendment clarifies that – for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

  (ii) IFRS 16 *Leases* amendment removes the illustration of payments from the lessor relating to leasehold improvements.

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

35. Significant Accounting Policies (Continued)

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

- Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after January 1, 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  Under existing IAS 1 requirements, the Bank classifies a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, a right to defer settlement must have substance and exist at the reporting date. The Bank classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the Bank complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

  With the amendments, convertible instruments may become current. In light of this, the amendments clarify how the Bank classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the Bank's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that the reporting entity can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

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

- Amendments to IFRS 16 *Leases* are effective for annual periods beginning on or after April 1, 2021, early adoption is permitted. The amendments extend the practical expedient by 12 months – i.e. allowing lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

  The 2021 amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings. The disclosure requirements of Paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors do not apply on initial application.

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

- Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 and may be applied earlier. The amendments help companies provide useful accounting policy disclosures.

  The key amendments to IAS 1 include:

  - requiring companies to disclose their material accounting policies rather that their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

35. Significant Accounting Policies (Continued)

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

- Amendments to IAS 1 *Presentation of Financial Statements (continued)*

  The amendments are consistent with the refined definition of material:

  "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

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

- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

  The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

  Developing an accounting estimate includes both:

  - selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 *Financial Instruments*; and

  - choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

  - The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

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

- Amendments to IAS 12 *Income Taxes* are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

  The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

  For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

  For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

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