NATIONAL COMMERCIAL BANK
JAMAICA LIMITED

2020
Financial Statements

Financial Statements

SEPTEMBER 30, 2020

Index

Financial Statements

Index
CONT'D

Independent auditor's report

To the Members of National Commercial Bank Jamaica Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of National Commercial Bank Jamaica Limited (the Bank) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Bank as at September 30, 2020, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

The Group's consolidated and stand-alone financial statements comprise:

- the consolidated statement of financial position as at September 30, 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the statement of financial position as at September 30, 2020;
- the income statement for the year ended September 30, 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: 876) 922 7581, www.pwc.com/jm

L.A. McKnight B.L. Scott B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore T.N. Smith DaSilva K.D. Powell.

Independence
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Audit scope
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We determined the scope of our audit by first considering the internal organisation of the Group and then identifying the components of the audit that have the most significant impact on the consolidated financial statements. The Group comprised 16 reporting components of which, we selected 5, which represents the principal business units within the Group and are located in Jamaica, Cayman Islands and Barbados. Full scope audits were performed for 4 components, while audits of one or more financial statements line items were performed for 1 component. The audit work performed covered 93% of the Group's total assets and 96% of total revenue.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
IFRS 9 'Financial Instruments' – Probabilities of Default, Forward Looking Information and Significant Increase in Credit Risk (Group & Bank) *See notes 2(g), 19 and 20 to the financial statements for disclosures of related accounting policies, judgements, estimates and balances.* As at September 30, 2020, the Group's loans and advances totalled $350.1 billion. The Group's investment securities measured at amortised cost and fair valued through other comprehensive income (FVOCI) totalled $369.3 billion. In aggregate, the above exposures represent 76% of total assets at the reporting date. The resultant impairment recorded under the expected credit loss (ECL) impairment model amounted to $13 billion for loans and advances and $41 million for debt securities. In assessing impairment, IFRS 9 prescribes a forward looking ECL impairment model which takes into account reasonable and supportable forward looking information as well as probabilities of default (PD). Probabilities of default represent the likelihood of a borrower defaulting on its obligation over the next twelve months or over the remaining lifetime of the obligation. The twelve month and lifetime PDs are determined differently for loans and investments. For loans and advances, management developed PDs based on the Group's specific historical default rates for each industry classification. In performing historical analyses, management identified economic variables impacting credit risk and ECLs for each portfolio. For debt securities, comprising sovereign and corporate securities, PDs are developed by reference to external data collated by Standard & Poor's (S&P) with adjustments for industry and country specific risks, where appropriate.	Our approach to addressing the matter, with the assistance of our valuation specialist, involved the following procedures, amongst others: • Updated our understanding of management's ECL model including any changes to source data and assumptions. • Tested the completeness of all loans and advances and debt securities to determine whether all items were included in the ECL models by agreeing the models to detailed loans and securities listings. • Evaluated the reasonableness of management's judgements pertaining to PD, SICR and forward looking information, including macroeconomic factors, impacting the weighting of the scenarios due to the negative impact of COVID-19 as follows: **Debt securities** PD: • Tested the critical data fields used in the ECL model, such as the maturity date, amortised cost, accrued interest, credit rating and interest rate by tracing data back to relevant source documents. • Agreed the inputs used to calculate the PDs to external sources such as external rating agencies.

Key audit matter	How our audit addressed the key audit matter
The unprecedented economic impact of COVID-19 resulted in a significant increase in credit risk (SICR) for a number of borrowers who migrated from Stage 1 to Stage 2 based on an assessment of the industry in which the borrower operates and other relevant factors. In the event of a SICR, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). The estimation and application of forward looking information requires significant judgement. Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) which most closely correlate with credit losses in the relevant portfolio. Each macroeconomic scenario used in the ECL calculation incorporates forecasts of the relevant macroeconomic variables. The estimation of ECL in Stage 1 and Stage 2 is a discounted, probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. The base case scenario is based on macroeconomic forecasts which are publicly available. Upside and downside scenarios are set relative to the base case scenario based on reasonably possible alternative macroeconomic conditions. Additional adjustments to the base, best case and worst case scenario weightings were required as a result of the COVID-19 pandemic. We focused on this area due to the impact of COVID-19 on credit risk, the complexity of the techniques used to determine PDs and identify SICR, and the number of significant judgements made by management regarding possible future economic scenarios.	SICR: • Tested, on a sample basis, the accuracy of the initial credit risk and the credit risk at the reporting date using rating agency definitions of 'investment grade' and evaluated the appropriateness of the group classification of debt securities as Stage 2. • Performed an independent qualitative assessment for a sample of borrowers to determine whether there was any adverse public information affecting the criteria used to perform the staging. • Inspected the financial statements of a sample of borrowers to determine whether there was any significant downturn in financial performance before and during the pandemic. This aided in assessing management's staging for borrowers, particularly for those who requested forbearance as a result of COVID-19. Forward Looking Information: • Assessed the reasonableness of the Group's methodology for determining economic scenarios and the probability weightings applied. • Evaluated the reasonableness of the increase in the weighting used for the worst case scenario by agreeing the forward looking economic information to external sources published or pronounced by reputable third parties. • Sensitized the probability weightings used in the ECL calculation.

Key audit matter	How our audit addressed the key audit matter
	Loans and advances PD: ● Tested the critical data fields used in the ECL model for the PD determination, such as default date, effective interest rate, write-off data, and loan type by tracing data back to source documents. ● Reperformed the calculation of days past due, a key data input into the PD parameter, in the Group's banking system on a sample basis. SICR: ● Evaluated staging of loans and advances by identifying the industries severely impacted by the pandemic. These were identified based on restrictions imposed by governments across the Group's operations. ● Tested whether the loans of borrowers from these industries migrated to Stage 2. Forward Looking Information: ● Assessed the reasonableness of the Group's methodology for determining economic scenarios. ● Evaluated the reasonableness of the increase in the weighting used for the worst case scenario by agreeing the forward looking economic information to external sources published or pronounced by reputable third parties. ● Sensitized the probability weightings used in the ECL calculation. The results of our procedures indicated that the assumptions used by management for determining the probabilities of default, significant increase in credit risk and forward looking information were not unreasonable.

pwc

Key audit matter	How our audit addressed the key audit matter
Valuation of unquoted corporate debt and government securities classified as fair value through profit or loss, fair value through other comprehensive income and pledged assets (Group & Bank).	
See notes 3, 21 and 44 to the financial statements for disclosures of related accounting policies, judgements, estimates and balances. As at September 30, 2020, unquoted corporate debt and government securities classified as investment securities at fair value through profit or loss, fair value through other comprehensive income, and pledged assets together account for $74.2 billion or 7.8% of total assets of the Group. These securities are classified and disclosed as Level 3 within the fair value hierarchy as one or more of the significant inputs is not based on observable market data. For unquoted corporate debt and government securities, management uses valuation techniques which utilise the application of a market yield curve adjusted by a risk premium to discount the contractual cash flows of the instruments. We focused on this area as the yield curve is an unobservable input requiring management's judgement and estimation, which is subject to high estimation uncertainty.	Our approach to addressing the matter, with the assistance of our valuation expert, involved the following procedures, amongst others: • Updated our understanding of management's approach to performing the fair value assessment. This included updating our understanding of the process by which management's key assumptions and methodologies were developed and assessing their appropriateness. • Tested key data inputs used in the valuation model, including: issuance date, maturity date, coupon rate and risk premium at issuance, by performing confirmation procedures and comparison to source documentation on a sample basis. • Independently developed territory specific yield curves and compared them to management's yield curves. • Tested, on a sample basis, the contractual cash flows of the underlying securities by comparing to source documentation and evaluated the impact of any variations. The results of our procedures indicated that the assumptions used by management for determining the fair value of unquoted corporate debt and government securities were not unreasonable.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

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

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and 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 Group or the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s responsibilities for the audit of the consolidated and stand-alone financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and stand-alone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Banks’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or 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 auditor’s report to the related disclosures in the consolidated and stand-alone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group or Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

pwc

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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 kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditor's report is Paul Williams.

PricewaterhouseCoopers

Chartered Accountants
December 23, 2020
Kingston, Jamaica

National Commercial Bank Jamaica Limited

Consolidated Income Statement

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Operating Income			
Interest income		52,078,586	53,241,974
Interest expense		(13,951,839)	(14,605,914)
Net interest income	5	38,126,747	38,636,060
Fee and commission income		19,158,105	20,650,515
Fee and commission expense		(3,897,424)	(4,402,745)
Net fee and commission income	6	15,260,681	16,247,770
Gain on foreign currency and investment activities	7	7,826,204	12,408,056
Credit impairment losses	12	(7,626,766)	(3,306,476)
Premium income	8	-	8,489,440
Dividend income	9	432,693	589,577
Other operating income		263,336	339,038
		895,467	18,519,635
Net operating income		54,282,895	73,403,465
Operating Expenses			
Staff costs	10	17,479,087	19,974,608
Policyholders' and annuitants' benefits and reserves	11	-	903,242
Depreciation and amortisation		4,406,429	3,789,708
Finance cost	52	675,862	-
Other operating expenses	13	20,871,667	23,626,278
		43,433,045	48,293,836
Operating Profit		10,849,850	25,109,629
Gain on sale of insurance portfolio		112,917	-
Share of profit of associates	22	1,507	10,089
Gain on disposal of associate	22	-	3,291,544
Gain on disposal of subsidiary	49	-	2,626,425
Profit before Taxation		10,964,274	31,037,687
Taxation	14	(24,994)	(5,740,079)
Net Profit from Continuing Operations		10,939,280	25,297,608
Net Profit from Discontinued Operations	50	4,085,055	-
Net Profit		15,024,335	25,297,608

Consolidated Statement of Comprehensive Income

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Net Profit		15,024,335	25,297,608
Other Comprehensive Income, net of tax -			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		(78,730)	212,640
Other		-	47,669
		(78,730)	260,309
Items that may be reclassified subsequently to profit or loss			
Currency translation gains		895,777	90,783
Expected credit losses in debt instruments at fair value through other comprehensive income (FVOCI)		(42,659)	(350,671)
Changes in unrealised (losses)/gains on securities designated as FVOCI		(5,750,580)	6,374,082
Realised fair value gains on sale and maturity of securities designated as FVOCI		(927,260)	(2,148,829)
Realised currency translation and other adjustments, of a former associated company		-	324,329
		(5,824,722)	4,289,694
Total other comprehensive income		(5,903,452)	4,550,003
TOTAL COMPREHENSIVE INCOME		9,120,883	29,847,611
Total comprehensive income from continuing operations		7,263,844	29,847,611
Total comprehensive income from discontinued operations	50	1,857,039	-
		9,120,883	29,847,611

National Commercial Bank Jamaica Limited

Consolidated Statement of Financial Position

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020	2019
		$'000	$'000
ASSETS			
Cash in hand and balances at Central Banks	15	71,209,740	60,187,509
Due from other banks	16	82,506,890	60,436,691
Derivative financial instruments	17	287,758	239,279
Reverse repurchase agreements	18	6,236,267	2,925,572
Loans and advances, net of provision for credit losses	19	337,115,548	312,914,928
Investment securities	20	172,510,380	172,425,058
Pledged assets	21	218,862,244	203,616,059
Investment in associates	22	114,241	112,734
Investment properties	23	679,278	104,310
Intangible assets	25	11,315,071	9,923,294
Property, plant and equipment	26	10,281,845	10,409,911
Right-of-use asset	52	2,004,086	-
Properties for development and sales	24	-	369,904
Deferred income tax assets	27	7,420,845	4,420,834
Income tax recoverable		5,209,085	3,228,293
Letters of credit and undertaking		3,618,540	2,051,519
Other assets	28	12,245,793	9,784,979
Total Assets		941,617,611	853,150,874

Consolidated Statement of Financial Position (Continued)

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
LIABILITIES			
Due to other banks	29	19,514,464	17,267,575
Customer deposits		431,805,583	364,872,737
Repurchase agreements		211,474,193	174,957,590
Obligations under securitisation arrangements	30	71,083,957	48,305,823
Derivative financial instruments	17	-	239,279
Other borrowed funds	31	25,419,752	34,654,829
Deferred income tax liabilities	27	124,641	3,679,950
Liabilities under annuity and insurance contracts	33	-	28,776,695
Post-employment benefit obligations	34	6,245,904	5,601,389
Letters of credit and undertaking		3,618,540	2,051,519
Lease liabilities	52	1,716,419	-
Other liabilities	35	29,074,464	27,139,486
Total Liabilities		800,077,917	707,546,872
EQUITY			
Share capital	36	6,465,731	6,465,731
Fair value and capital reserves	37	5,089,545	10,914,267
Loan loss reserve	38	-	2,947,624
Banking reserve fund	39	6,671,246	6,634,068
Retained earnings reserve	40	58,580,000	43,820,000
Retained earnings		64,733,172	74,822,312
Total Equity		141,539,694	145,604,002
Total Equity and Liabilities		941,617,611	853,150,874

Approved for issue by the Board of Directors on December 10, 2020 and signed on its behalf by:

Septimus Blake — Director and Chief Executive Officer	Malcolm Sadler — Chief Financial Officer
Professor Alvin Wint, CD — Lead Independent Director	Dave Garcia — Corporate Secretary

Consolidated Statement of Changes in Equity

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at October 1, 2018		6,465,731	6,624,573	3,224,799	6,598,442	39,250,000	62,030,387	124,193,932
Total comprehensive income		-	4,289,694	-	-	-	25,557,917	29,847,611
Transfer from Loan Loss Reserve		-	-	(277,175)	-	-	277,175	-
Transfer to Banking Reserve Fund		-	-	-	35,626	-	(35,626)	-
Transfer to Retained Earnings Reserve		-	-	-	-	4,570,000	(4,570,000)	-
Transactions with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(8,437,541)	(8,437,541)
Balance at October 1, 2019		6,465,731	10,914,267	2,947,624	6,634,068	43,820,000	74,822,312	145,604,002
Total comprehensive income		-	(5,824,722)	-	-	-	14,945,605	9,120,883
Transfer from Loan Loss Reserve		-	-	(2,947,624)	-	-	2,947,624	-
Transfer to Banking Reserve Fund		-	-	-	37,178	-	(37,178)	-
Transfer to Retained Earnings Reserve		-	-	-	-	14,760,000	(14,760,000)	-
Transactions with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(13,185,191)	(13,185,191)
Balance at September 30, 2020		6,465,731	5,089,545	-	6,671,246	58,580,000	64,733,172	141,539,694

Consolidated Statement of Cash Flows

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Net profit		15,024,335	25,297,608
Adjustments to reconcile net profit to net cash provided by operating activities		76,991,252	6,218,816
Net cash provided by operating activities	41	92,015,587	31,516,424
Cash Flows from Investing Activities			
Proceeds from disposal of subsidiary	49	-	6,465,579
Acquisition of property, plant and equipment	26	(2,622,251)	(2,159,436)
Acquisition of intangible asset – computer software	25	(4,221,090)	(4,691,747)
Proceeds from disposal of property, plant and equipment		164,788	175,260
Net proceeds from disposal of insurance portfolio to fellow subsidiary	50	4,866,582	-
Purchase of property for development and resale	24	-	(369,904)
Dividends received from associates	22	-	68,518
Purchases of investment securities		(329,325,639)	(365,972,935)
Sales/maturities of investment securities		265,169,061	370,971,090
Net cash (used in)/provided by investing activities		(65,968,549)	4,486,425
Cash Flows from Financing Activities			
Proceeds from securitisation arrangements		35,392,925	-
Repayments under securitisation arrangements		(12,077,688)	(8,798,148)
Proceeds from other borrowed funds		9,856,741	19,014,587
Repayments of other borrowed funds		(19,248,410)	(20,924,238)
Due to other banks		4,027,539	5,589,106
Payment of principal portion of lease liabilities		(450,913)	-
Dividends paid		(13,185,191)	(8,437,541)
Net cash provided by/(used in) financing activities		4,315,003	(13,556,234)
Effect of exchange rate changes on cash and cash equivalents		651,908	3,739,331
Net increase in cash and cash equivalents		31,013,949	26,185,946
Cash and cash equivalents at beginning of year		82,682,506	56,496,560
Cash and Cash Equivalents at End of Year		113,696,455	82,682,506
Comprising:			
Cash in hand and balances at Central Banks	15	36,751,502	23,244,217
Due from other banks	16	78,884,746	53,490,078
Reverse repurchase agreements	18	5,895,572	2,265,690
Investment securities	20	-	13,330,830
Due to other banks	29	(7,835,365)	(9,648,309)
		113,696,455	82,682,506

National Commercial Bank Jamaica Limited

Income Statement

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Operating Income			
Interest income		42,502,156	41,312,400
Interest expense		(8,810,025)	(9,473,046)
Net interest income	5	33,692,131	31,839,354
Fee and commission income		16,045,041	18,750,747
Fee and commission expense		(3,897,423)	(4,402,745)
Net fee and commission income	6	12,147,618	14,348,002
Gain on foreign currency and investment activities	7	5,253,667	6,396,805
Credit impairment losses	12	(8,136,573)	(3,288,510)
Dividend income	9	3,197,567	11,400,102
Other operating income		326,275	359,650
		640,936	14,868,047
Net operating income		46,480,685	61,055,403
Operating Expenses			
Staff costs	10	15,631,707	16,537,530
Depreciation and amortisation		4,150,444	3,412,513
Finance cost	52	614,412	-
Other operating expenses	13	19,049,833	20,878,321
		39,446,396	40,828,364
Operating Profit		7,034,289	20,227,039
Gain on disposal of investment in associate	22	-	7,107,970
Profit before taxation		7,034,289	27,335,009
Taxation	14	109,449	(2,604,772)
NET PROFIT		7,143,738	24,730,237

Statement of Comprehensive Income

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	2020	2019
	$'000	**$'000**
Net Profit	7,143,738	24,730,237
Other Comprehensive Income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurement of the post-employment benefit obligations	(78,730)	161,139
Items that may be reclassified subsequently to profit or loss		
Expected credit losses on debt instruments at FVOCI	(182,529)	(256,831)
Unrealised (losses)/gains on securities designated as FVOCI	(2,241,383)	3,190,373
Realised fair value gains on sale and maturity on securities designated as FVOCI	(807,219)	(375,076)
	(3,231,131)	2,558,466
Total other comprehensive income	(3,309,861)	2,719,605
TOTAL COMPREHENSIVE INCOME	3,833,877	27,449,842

National Commercial Bank Jamaica Limited

Statement of Financial Position

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020	2019
		$'000	$'000
ASSETS			
Cash in hand and balances at Central Bank	15	68,726,354	59,237,567
Due from other banks	16	69,230,563	48,977,065
Derivative Financial Instruments		287,758	-
Reverse repurchase agreements	18	966,716	223,923
Loans and advances, net of provision for credit losses	19	327,679,553	304,012,102
Investment securities	20	73,293,779	56,550,806
Pledged assets	21	115,758,083	108,348,378
Investment in subsidiaries		1,461,402	1,609,609
Intangible assets	25	10,561,027	9,304,168
Property, plant and equipment	26	10,253,581	10,355,270
Right-of-use-asset	52	1,935,291	-
Deferred income tax assets	27	7,059,258	4,217,474
Income tax recoverable		3,473,021	2,718,593
Letters of credit and undertaking		3,618,540	2,051,519
Other assets	28	10,734,234	7,541,034
Total Assets		705,039,160	615,147,508

Statement of Financial Position (Continued)

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020	2019
		$'000	**$'000**
LIABILITIES			
Due to other banks	29	33,467,407	18,604,554
Customer deposits		409,153,660	349,480,058
Repurchase agreements		78,443,080	74,960,532
Obligations under securitisation arrangements	30	71,083,957	48,305,823
Other borrowed funds	31	13,566,822	12,533,370
Deferred tax liabilities	27	-	1,899,697
Post-employment benefit obligations	34	6,245,904	5,601,389
Letters of credit and undertaking		3,618,540	2,051,519
Lease liabilities	52	1,651,144	-
Other liabilities	35	10,923,843	15,474,449
Total Liabilities		628,154,357	528,911,391
EQUITY			
Share capital	36	6,465,731	6,465,731
Fair value and capital reserves	37	(984,954)	2,246,177
Loan loss reserve	38	-	2,947,623
Banking reserve fund	39	6,512,634	6,512,634
Retained earnings reserve	40	58,580,000	43,820,000
Retained earnings		6,311,392	24,243,952
Total Equity		76,884,803	86,236,117
Total Equity and Liabilities		705,039,160	615,147,508

Approved for issue by the Board of Directors on December 10, 2020 and signed on its behalf by:

Septimus Blake — Director and Chief Executive Officer

Malcolm Sadler — Chief Financial Officer

Professor Alvin Wint, CD — Lead Independent Director

Dave Garcia — Corporate Secretary

Statement of Changes in Equity

Year ended September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at October 1, 2018		6,465,731	(312,289)	3,224,798	6,512,634	39,250,000	12,057,063	67,197,937
Total comprehensive income		-	2,558,466	-	-	-	24,891,376	27,449,842
Transfer to Retained Earnings Reserve		-	-	-	-	4,570,000	(4,570,000)	-
Transfer from Loan Loss Reserve		-	-	(277,175)	-	-	277,175	-
Transaction with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(8,411,662)	(8,411,662)
Balance at September 30, 2019		6,465,731	2,246,177	2,947,623	6,512,634	43,820,000	24,243,952	86,236,117
Total comprehensive income		-	(3,231,131)	-	-	-	7,065,008	3,833,877
Transfer to Retained Earnings Reserve				-	-	14,760,000	(14,760,000)	-
Transfer from Loan Loss Reserve				(2,947,623)	-	-	2,947,623	-
Transaction with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(13,185,191)	(13,185,191)
Balance at September 30, 2020		6,465,731	(984,954)	-	6,512,634	58,580,000	6,311,392	76,884,803

National Commercial Bank Jamaica Limited

Statement of Cash Flows

Year end September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Net profit		7,143,738	24,730,237
Adjustments to reconcile net profit to net cash provided by operating activities		33,624,235	6,370,095
Net cash provided by operating activities	41	40,767,973	31,100,332
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	26	(1,337,231)	(2,089,311)
Acquisition of intangible asset – computer software	25	(3,848,646)	(4,333,127)
Proceeds from disposal of property, plant and equipment		164,788	104,192
Purchases of investment securities		(170,736,961)	(203,253,129)
Sales/maturities of investment securities		134,229,776	203,689,317
Net cash used in investing activities		(41,528,274)	(5,882,058)
Cash Flows from Financing Activities			
Proceeds from securitisation arrangements		35,392,925	-
Repayments under securitisation arrangements		(12,077,688)	(8,798,148)
Proceeds from other borrowed funds		6,396,992	3,849,302
Repayments of other borrowed funds		(5,506,811)	(3,030,180)
Due to other banks		2,695,169	7,042,852
Payment of principal portion of lease liabilities		(437,800)	-
Dividends paid		(13,185,191)	(8,411,662)
Net cash provided by/(used in) financing activities		13,277,596	(9,347,836)
Effect of exchange rate changes on cash and cash equivalents		622,864	3,739,361
Net increase in cash and cash equivalents		13,140,159	19,609,799
Cash and cash equivalents at beginning of year		66,401,778	46,791,979
Cash and Cash Equivalents at End of Year		79,541,937	66,401,778
Comprising:			
Cash in hand and balances at Central Bank	15	34,755,539	22,985,289
Due from other banks	16	65,608,419	42,030,657
Reverse repurchase agreements	18	966,287	223,592
Investment securities	20	-	10,806,108
Due to other banks	29	(21,788,308)	(9,643,868)
		79,541,937	66,401,778

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

National Commercial Bank Jamaica Limited ("the Bank") is incorporated in Jamaica and licensed under the Banking Services Act 2014. The Bank is a wholly owned subsidiary of NCB Financial Group Limited ("NCBFG"). The ultimate parent company is Portland Holdings Inc., incorporated in Canada. Portland Holdings Inc., is controlled by Hon. Michael A. Lee-Chin, OJ, Chairman of the Bank.

The Bank's registered office is located at 32 Trafalgar Road, Kingston 10, Jamaica.

The Bank's subsidiaries and other consolidated entities, which together with the Bank are referred to as "the Group", are as follows:

	Country of Incorporation	Principal Activities	Percentage Ownership by The Group	
			2020	2019
Data-Cap Processing Limited	Jamaica	Security Services	100	100
MSIB Limited (formerly Mutual Security Insurance Brokers Limited)	Jamaica	Dormant	100	100
NCB Capital Markets Limited	Jamaica	Securities Dealing and Stock Brokerage Services	100	100
Advantage General Insurance Company Limited	Jamaica	General Insurance	-	100
NCB Capital Markets (Cayman) Limited	Cayman	Securities Dealing	100	100
NCB Global Finance Limited	Trinidad	Merchant Banking	100	100
NCB Capital Markets (Barbados) Limited	Barbados	Brokerage Services	100	100
NCB Capital Markets SA	Dominican Republic	Inactive	100	100
NCB (Cayman) Limited	Cayman	Commercial Banking	100	100
NCB Trust Company (Cayman) Limited*	Cayman	-	100	100
NCB Insurance Company Limited	Jamaica	Life Insurance, Investment and Pension Fund Management Services	100	100
N.C.B. (Investments) Limited	Jamaica	Dormant	100	100
N.C.B. Jamaica (Nominees) Limited	Jamaica	Dormant	100	100
NCB Remittance Services (Jamaica) Limited	Jamaica	Dormant	100	100
NCB Financial Services UK Limited	United Kingdom	-	100	100
West Indies Trust Company Limited	Jamaica	Trust and Estate Management Services	100	100
NCB Employee Share Scheme	Jamaica	Dormant	100	100

*No significant activities at this time.

In the previous year, NCB Capital Markets Limited disposed of its 100% shareholdings in Advantage General Insurance Limited (see Note 49).

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities (Continued)

The Group's associates are as follows:

	Principal Activities	Percentage ownership by The Group	
		2020	**2019**
Dyoll Group Limited	In Liquidation	44.47	44.47
Elite Diagnostic Limited	Medical Imaging Services	18.69	18.69
Mundo Finance Limited	Micro Financing	50.00	50.00

All the Group's associates are incorporated in Jamaica.

In the previous year, the Bank disposed of its 20.01% shareholdings in JMMB Group Limited (see Note 22).

2. Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of FVOCI investment securities, investment securities at fair value through profit or loss, derivative contracts and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3.

Standards, interpretations and amendments to existing standards effective during the current year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new interpretations and amendments, and has adopted the following, which are relevant to its operations:

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after January 1, 2019).

Amendment to IFRS 9, 'Financial Instruments', on prepayment features with negative compensation and modification of financial liabilities (effective for annual periods beginning on or after January 1, 2019 (October 1, 2019 for the Group)).This amendment confirmed two points: i.) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and ii.) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39. There was no significant impact from the adoption of these amendments during the year.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to existing standards effective during the current year (Continued)

IFRS 16, 'Leases', (effective for annual periods beginning on or after January 1, 2019 (October 1, 2019 for the Group)) was issued in January 2017 and replaces IAS 17, 'Leases'. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right-to-use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS16 also requires enhanced disclosures to be provided by lessors and lessees that will improve information provided to users of the financial statements. The impact on the Group of implementing IFRS 16 is discussed in Notes 51 and 52 to the financial statements.

Annual improvements 2015–2017, (effective for annual periods beginning on or after January 1, 2019 (October 1, 2019 for the Group)). These amendments include minor changes to IAS 12, 'Income taxes' and IAS 23, 'Borrowing costs'. IAS 12 requires that a company accounts for all income tax consequences of dividend payments in the same way and IAS 23, 'Borrowing costs' requires that a company treats as part of general borrowings, any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement' (effective for annual periods beginning on or after January 1, 2019 (October 1, 2019 for the Group)). These amendments require an entity to use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

IFRIC 23, 'Uncertainty over income tax treatments (effective for annual periods beginning on or after January 1, 2019 (October 1, 2019 for the Group)). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not effective at the date of the statement of financial position, and which the Group has not early adopted.

Amendments to IFRS 3, 'definition of a business' (effective for annual periods beginning on or after 1 January 2020). This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

Amendments to IAS 1 and IAS 8 on the definition of material (effective for annual periods beginning on or after 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after January 1, 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions (effective for annual periods beginning on or after 1 June 2020). As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The Group does not expect any significant impact on the financial statements arising from future adoption of this amendment.

IFRS 17, 'Insurance contracts' *(effective for annual periods beginning on or after January 1, 2023)*. IFRS 17 replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of discount probability – weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The standard applies to annual periods beginning on or after January 1, 2021, however earlier application is permitted if IFRS 15, 'Revenue from Contracts with Customers', and IFRS 9, 'Financial Instruments', are also applied. The Group is currently assessing the impact of future adoption of the new standard on its financial statements.

2. **Significant Accounting Policies (Continued)**

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities, (effective for annual periods beginning on or after January 1, 2022).These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

Amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on, IFRS 9 and IFRS 16 (effective for annual periods beginning on or after January 1, 2022). Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1he Illustrative Examples accompanying IFRS 16, 'Leases'. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

IFRIC 23, 'Uncertainty over income tax treatments' (effective for annual periods beginning on or after January 1, 2020). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

Amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, and IFRS 16, (effective for annual periods beginning on or after January 1, 2022). Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', and the illustrative examples accompanying IFRS 16, 'Leases'. The Group is currently assessing the impact of future adoption of these amendments on its financial statements.

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries

Subsidiaries are those entities which the Group controls because the Group (i) has power to direct relevant activities of the entities that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the entities, and (iii) has the ability to use its power over the entities to affect the amount of the entities' returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the entities need to be made. The Group may have power over an entity even when it holds no ownership interests in the entity, or when it holds less than majority of voting power in an entity. In such cases, the Group exercises judgment and assesses its power to direct the relevant activities of the entity, as well as its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the entity. Protective rights of other investors, such as those that relate to fundamental changes in the entity's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

In the Company's stand-alone financial statements, investments in subsidiaries are accounted for at cost less impairment.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group determines at each reporting date whether there is any objective evidence that investments in associates are impaired. If this is the case, the Group recognises an impairment charge in the income statement for the difference between the recoverable amount of the associate and it's carrying value.

The results of associates with financial reporting year-ends that are different from the Group are determined by prorating the results for the audited period as well as the period covered by management accounts to ensure that a year's result is accounted for where applicable.

Investments in associates are accounted for using the equity method of accounting (as described above) and are initially recognised at cost.

In the Company's stand-alone financial statements, investments in associates are accounted for at cost less impairment.

2. Significant Accounting Policies (Continued)

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the date of the statement of financial position, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate.

Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the income statement.

Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the income statement (applicable for trading securities), or within other comprehensive income if non-monetary financial assets are classified as FVOCI. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity.

2. Significant Accounting Policies (Continued)

(d) Revenue recognition

Interest income and expense
Interest income and expense are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount on treasury bills and other discounted instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Group accounts for interest income on loans in accordance with Jamaican banking regulations. These regulations stipulate that, where collection of interest is considered doubtful or where the loan is in non-performing status (payment of principal or interest is outstanding for 90 days or more), interest should be taken into account on the cash basis and all previously accrued but uncollected interest be reversed in the period that collection is doubtful or the loan becomes non-performing. IFRS require that when loans are impaired, they are written down to their recoverable amounts and interest income is thereafter recognised by applying the original effective interest rate to the recoverable amount. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

Fee and commission income
Fee and commission income is generally recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Premium income
Premium income is recognised on the accrual basis in accordance with the terms of the underlying contracts as outlined in Note 2(u).

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

Rental Income
Rental income is recognised on an accrual basis.

Realised and unrealised investment gains and losses
Realised and unrealised gains and losses on investments measured at amortised cost or fair value through profit or loss are recognised in the consolidated statement of income in the period in which they arise.

Dividend distributions
Dividend distributions to the Parent's shareholders are recognised as an appropriation in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's Board of Directors.

2. Significant Accounting Policies (Continued)

(e) Income taxes

Taxation expense in the income statement comprises current and deferred income tax charges.

Current income tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantively enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income or equity, in which case, deferred tax is also dealt with in other comprehensive income or equity.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days' maturity from the date of acquisition including cash and balances at Central Banks (excluding statutory reserves), due from banks, investment securities, reverse repurchase agreements and due to banks.

2. Significant Accounting Policies (Continued)

(g) Financial assets

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

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

Business model assessment

The business models are determined at the level which best reflects how the Group manages portfolios of assets to achieve business objectives. Judgment is used in determining business models, supported by relevant and objective evidence including:

- How the performance and risks of a portfolio of assets are managed, evaluated and reported to key management and how the managers of the portfolio are compensated;
- How the Group intends to generate profits from holding the portfolio of assets;
- The past experience on how the cash flows of the portfolio of assets were collected; and
- The historical and future expectations of asset sales within a portfolio.

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

Solely payments of principal and interest ("SPPI")

Where the business model is to collect or, to collect and sell a financial instruments' contractual cash flows, the Group assesses whether those cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are 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 FVPL. The cash flows of financial assets which contain an embedded derivative are not disaggregated when determining whether their cash flows are solely payments of principal and interest but are considered in their entirety. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Equity instruments

The Group has elected to measure equity holdings that fall under IFRS 9 at FVPL, unless they form part of a strategic acquisition that is not held for trading purposes.

Debt instruments

The Group classifies portfolios of debt instruments, including hybrid contracts, based on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

Initial recognition
Financial assets and liabilities are recognised when the Group becomes party to a contractual provision of the instrument. At initial recognition, regular way purchase of financial assets are recorded at fair value. The carrying value of financial assets at initial recognition includes any directly attributable transaction costs. Purchases of financial assets are recognised on the date on which the Group becomes the beneficial owner of the security.

De-recognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position.
On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), 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.
The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Classification of financial assets
After initial recognition, financial assets are measured based on the business model and the resulting classification. As required by IFRS 9, the Group applies a principles-based approach to the classification of financial assets on its business model and the nature of the cash flows of the asset. Financial instruments are classified as either:

- FVPL
- FVOCI or
- amortised cost.

Financial assets measured at fair value through profit and loss (FVPL)
Financial instruments are classified in this category if they meet one of the criteria set out below and are so designated irrevocably at inception:

- this designation removes or significantly reduces an accounting mismatch; or
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- the financial instrument is held for trading purposes.
- The financial instrument is a derivative that is not designated as a hedge.

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

Financial assets measured at fair value through other comprehensive income (FVOCI)
Financial assets held for a business model that is achieved by both collecting and selling contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that SPPI are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net gains / (losses) on investment securities. Foreign exchange gains or losses are presented in gain on foreign currency and investment activities and impairment losses are presented as a separate line item in the income statement, as credit impairment losses.

Financial assets measured at amortised cost
Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss together with foreign exchange gains or losses in gain on foreign currency and investment activities. Impairment losses are presented as a separate line item in the income statement, as credit impairment losses.

Impairment of financial assets
Under IFRS 9 the Group applies an impairment model that recognises expected credit losses (“ECL”) on financial assets measured at amortised cost and FVOCI and off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (’12-month ECL’).

In the event of a significant increase in credit risk (SICR) an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired are in stage 3’.

To determine whether the life-time credit risk has increased significantly since initial recognition, the Group considers reasonable and supportable information that is available, including information from the past as well as forward-looking information. Factors such as whether payments of principal and interest are in delinquency, an adverse change in credit rating of the borrower and adverse changes in the borrower’s industry and economic environment are considered in determining whether there has been a significant increase in the credit risk of the borrower.

Purchased or originated credit-impaired assets (POCI)
Financial assets that are purchased or originated at a deep discount that reflects their incurred credit losses, are considered to be already credit-impaired on initial recognition. The Group calculates the credit adjusted effective interest rate, which is based on the originated fair value instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. The ECL of these financial assets is always measured on a lifetime basis and changes in the ECL are recorded in the Income Statement.

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

Definition of default
The Group determines that a financial instrument is in default, credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for 90 days or more;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the financial asset is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is greater than 90 days past due.

Write-offs
Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, write offs generally occur after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Recognition and Measurement of ECL
The general approach to recognising and measuring ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated by multiplying the following three main components:

- The probability of default ("PD");
- The loss given default ("LGD"); and,
- The exposure at default ("EAD"), discounted at the original effective interest rate.

Management has calculated these inputs based on the estimated forward looking economic and historical experience of the portfolios adjusted for the current point in time. A simplified approach to calculating the ECL is applied to other receivables which do not contain a significant financing component. Generally, these receivables are due within 12 months unless there are extenuating circumstances. Under this approach, an estimate is made of the life-time ECL on initial recognition. For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The PD, LGD and EAD models which support these determinations are reviewed periodically. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in modelling and for the incorporation of scenarios which have not generally been subject to experience gained through stress testing. The exercise of judgment in making estimations requires the use of assumptions which are subjective and sensitive to risk factors, in particular to changes in economic and credit conditions across geographical areas. Many of the risk factors have a high degree of interdependency and there is no single factor to which impairment allowances as a whole are sensitive. Therefore, sensitivities are considered in relation to key portfolios which are particularly sensitive to a few factors and these results are not extrapolated to the wider population of financial assets.

2. **Significant Accounting Policies (Continued)**

(g) Financial assets (continued)

The measurement of ECL for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

For a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

For defaulted financial assets, based on management's assessment of the borrower, a specific provision of expected life-time losses which incorporates collateral recoveries is calculated and recorded as the ECL. The resulting ECL is the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate.

Forward looking information
The estimation and application of forward-looking information requires significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the ECL calculation has forecasts of the relevant macroeconomic variables. The estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. The base case scenario is based on macroeconomic forecasts that are publicly available. Upside and downside scenarios are set relative to the base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenario design, including the identification of additional downside scenarios occurs on at least an annual basis and more frequently if conditions warrant. Scenarios are probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis or more frequently as warranted. The base scenario reflects the most likely outcome and is assigned the highest weighting.

The weightings assigned to each economic scenario as at September 30, 2020 vary by jurisdiction and were as follows:

	Base	Best Case	Worst Case
Scenarios	0% - 85%	0%- 5%	10% - 100%

ECL on financial assets measured at amortised cost and FVOCI, are recognised in the income statement. For FVOCI financial assets, there is a corresponding adjustment to OCI, while for financial assets measured at amortised cost, the ECL is adjusted against the carrying amount of the asset. Unrealised gains and losses arising from changes in fair value on FVOCI assets are measured in other comprehensive income. For FVOCI assets, when the asset is sold, the cumulative gain or loss in OCI (including ECL there recognised) is reclassified to investment income in determining the gain or loss on disposal.

2. Significant Accounting Policies (Continued)

(g) Financial assets (continued)

Modification of loans
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flow to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates the new effective interest rate for the asset. The date of negotiation is consequently considered to be the date of initial recognition for impairment calculation purposes and the purpose of determining if there has been a significant increase in credit risk. At this point the Group will assess if the asset is POCI.

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

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

- The amount of the loss allowance; and,
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, 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 Group cannot separately identify the excepted 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 ECL is recognised as a provision.

2. Significant Accounting Policies (Continued)

(h) Derivative financial instruments

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

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Derivatives 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.

Gains and losses from changes in the fair value of derivatives are included in the income statement.

(i) Repurchase and reverse repurchase transactions

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and purchase/sale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(j) Loans and advances and provisions for credit losses

Loans and advances are recognised when cash is advanced to borrowers. They are initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method.

Provision for credit losses determined under the requirements of IFRS

See Note 2(g) for details of policy under IFRS 9 after October 1, 2019

When a loan is deemed uncollectible, it is written off against the related provision for credit losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision for credit losses. The amount of the reversal is recognised in the income statement.

2. Significant Accounting Policies (Continued)

(j) Loans and advances and provisions for credit losses (continued)

Provision for credit losses determined under the Bank of Jamaica (BOJ) regulatory requirements

The effect of the provision for credit losses determined under the Bank of Jamaica regulatory requirements is to preserve capital. No amounts are booked to the income statement in respect of regulatory provisions. Provisions calculated based on regulatory requirements that exceed the amounts required under IFRS are transferred from retained earnings to a non-distributable loan loss reserve in stockholders' equity.

The provision for credit losses determined under the Bank of Jamaica regulatory requirements comprises a "specific provision" and a "general provision". The specific provision is determined based on each specific loan for which problems have been identified. The general provision is considered to be prudential in nature and is established to absorb portfolio losses.

The specific provision is established for the estimated net loss for all non-performing loans and performing loans that meet specified criteria. Loans are considered to be non-performing where a principal or interest payment is contractually 90 days or more in arrears. At the time of classification as non-performing, any interest that is contractually due but in arrears is reversed from the income statement and interest is thereafter recognised in the income statement on the cash basis only. The estimated net loss is defined as the net exposure remaining after deducting the estimated net realisable value of the collateral (as defined by and determined by the regulations) from the outstanding principal balance of the loan. The regulations quantify the specific provision at ranges from 20% to 100% of each non-performing loan depending on the length of time the loan has been in arrears. In addition, where a non-performing loan is fully secured but the collateral is unrealised for a period of 12 months, a provision of 50% of the amounts outstanding should be made. Where the collateral is unrealised for a further 6 months (with limited exceptions which allow for up to a further 15 months) a full provision is made. The regulations further require that the specific provision for each loan should not be less than 1% of the amounts outstanding.

A general provision is established for all loans (other than loans for which specific provisions were established) at 1% of the amounts outstanding.

2. Significant Accounting Policies (Continued)

(k) Investment properties

Investment property is held for long-term rental yields and is, therefore, treated as a long-term investment.

Investment property is measured initially at cost, including transaction costs, and is subsequently carried at fair value, representing open market value determined annually by the directors or by independent valuators. Changes in fair values are recorded in the income statement.

(l) Intangible assets

Computer software

Costs that are directly associated with acquiring and developing identifiable and unique software products are recognised as intangible assets. These costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Core deposits, customer relationships and trade name

These assets are associated with the acquisition of a subsidiary and are measured at fair value as at the date of acquisition. These assets are amortised using the straight line method over their useful lives, not exceeding a period of twenty years.

(m) Property, plant and equipment

Land and buildings are shown at deemed cost less impairment losses, and less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on the straight-line basis, unless otherwise stated, at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates or periods over which depreciation is charged are as follows:

Freehold Buildings &Leasehold improvements	2% & Period of lease
Motor Vehicles, Furniture & Equipment	5% - 33 1/3%
Leased assets	Shorter of period of lease or useful life of asset

Gains or losses on disposals are determined by comparing proceeds with carrying amounts. These are included in other operating income in the income statement.

.

2. Significant Accounting Policies (Continued)

(n) Impairment of long lived assets
Property, plant and equipment and intangibles are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(o) Financial liabilities
The Group's financial liabilities comprise primarily amounts due to banks, customer deposits, repurchase agreements, obligations under securitisation arrangements, other borrowed funds, liabilities under annuity and insurance contracts, liabilities under letters of credit and undertaking and other liabilities.

The recognition and measurement of liabilities under annuity and insurance contracts is detailed in Note 2(t); other financial liabilities are measured at amortised cost.

Offsetting financial instruments
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.

(p) Borrowings
Borrowings, including those arising under securitisation arrangements, are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

(q) Structured products
Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through the income statement (Note 17). The non-derivative elements are stated at amortised cost using the effective interest method.

(r) Leases

As lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged in the income statement over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged in the income statement on a straight-line basis over the period of the lease.

As lessor
When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

2. Significant Accounting Policies (Continued)

(s) Insurance and investment contracts – classification, recognition and measurement

Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Recognition and measurement

Insurance contracts are classified depending on the duration of risk and whether or not the terms and conditions are fixed.

Short duration insurance contracts

These contracts are principally property, motor, casualty (employers' liability, public liability), and group life and health insurance contracts.

Property insurance contracts indemnify the Group's customers in the event of a loss from a specified insured peril such as fire, windstorm or earthquake (not limited to these perils) up to the insured amount and within the terms of the policy conditions. These contracts are issued for both private and commercial risks. Customers who undertake commercial activities on their premises could also receive compensation for consequential loss/business interruption caused by the insured perils.

Motor insurance contracts indemnify the Group's customers for their legal requirement under the road traffic legislations in the countries where the Group has issued these contracts. These contracts may be extended for additional coverage such as physical damage, theft and personal accident.

Casualty insurance contracts provide coverage for liability exposures that indemnify the Group's customers against actions from third parties which are subject to the policy limits and conditions. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and employers who become liable to pay compensation to third parties for bodily harm or property damage (public liability).

Marine insurance contracts indemnify the Group's customers for loss or damage to their insured cargo, commercial hull and pleasure craft vessels. Third party coverage is also provided.

Group life contracts protect the Group's customers from the consequences of events (such as death or critical illness) that would affect the ability of the customer or his/her dependants to maintain his/her current level of income.

Health insurance contracts provide for both unexpected and preventative medical treatment and drugs. On these contracts, the benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premiums received on inforce contracts that relate to unexpired risks at the date of the statement of financial position is reported as an unearned premium liability. Premiums are shown before deduction of commissions payable to agents and brokers and exclude any taxes or duties levied on such premiums. Premium income includes premiums collected by agents and brokers not yet received by the Group.

2. Significant Accounting Policies (Continued)

(t) Leases

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy, and the impact of the change are described in Note 51.

Accounting policies applied from October 1, 2019
As lessee
The Group leases various building and equipment. Rental contracts are typically made for fixed periods of 1-10 years but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From October 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The right-of-use assets is presented within property, plant and equipment. Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- restoration costs.

Subsequently the right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses are adjusted for remeasurement of the lease liability due to reassessment or lease modifications.

The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation period for the right-of-use assets is 1 to 10 years.

2. Significant Accounting Policies (Continued)

(t) Leases (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rates, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise computers, tablets, mobile phones and small items of office furniture.

Accounting policies applied until September 30, 2019
As lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are recognised at the inception of the leases at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to the income statement over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

As lessor
When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

3. Critical Accounting Estimates and Judgments in Applying Accounting Policies

COVID-19
The coronavirus pandemic (COVID-19) caused a contraction in all the economies in which the Group operates. The spread of the virus and stringent exit and entry protocols weighed on global travel and limited tourism demand.

Our monitoring mechanisms ramped up as we kept a close eye on the health crisis and on the economic impact on our major trading partners and the contagion effect on the industries in sovereigns in which we operate. Arising from this exercise, we recognized that our borrowing customers may experience significant fallout which could result in increased credit losses. We saw positive impact from the extension of moratoriums, payment holidays and other accommodative activities on the delinquency levels of the portfolios. Despite the positive trend observed, we did make significant adjustments to our ECLs to recognize the increased credit risk associated with the environment.

Our investment portfolios were impacted by the widening of credit spreads and foreign exchange changes which resulted in significant fall-off in asset prices.

Our Income would have been negatively impacted by waiver or reduction of fees associated with certain loan facilities and reduction in loan volumes due to contraction in economic activity.

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Group makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgments are continuously evaluated and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial position due to their materiality.

Business combinations
Business combinations are accounted for using the acquisition method. The Group determines the identifiable assets and liabilities using the purchase price allocation method. Under this method, the Group makes estimates about future cash flows which are derived based on factors such as revenue growth, attrition rates and discount rates in determining the fair values of the identifiable intangible assets.

Income taxes
There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for actual and anticipated tax audit issues based on estimates of whether additional taxes will be due. In determining these estimates, management considers the merit of any tax audit issues raised, based on their interpretation of the taxation laws, and their knowledge of any precedents established by the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could materially impact the current tax and deferred tax provisions in the period in which such determination is made.

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

Impairment of financial assets – Policies under IFRS 9

In determining ECL, management is required to exercise judgment in defining what is considered a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Further information about the judgments involved is included in the sections 'Measurement of ECL' and 'Forward-looking information'.

Establishing staging

The Group establishes staging for different categories of financial assets according to the following criteria:

Debt securities and Deposits.

The Group uses its internal credit rating model to determine which of the three stages an asset is to be categorized for the purposes of ECL. The Group's internal credit rating model is a scale which allows for distinctions in risk characteristics and is referenced to the rating scale of international credit rating agencies. The scale is summarised in the following table:

Internal Rating	Classification	External rating – S&P or equivalent
Low Risk	Investment Grade	AAA – BBB
Medium Risk	Non-Investment Grade	BB – B
High Risk	Non-Investment Grade	CCC - C
Default	Default	D

For investment securities, once the asset has experienced a significant increase in credit risk the investment will move from Stage 1 to Stage 2. The Group has assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial asset that is investment grade is considered low credit risk. Stage 1 instruments are classified as follows:

(i) investment grade, or
(ii) below investment grade at origination, and have not been downgraded more than 2 notches since origination.

Stage 2 instruments are assets which:

(i) have been downgraded from investment grade to below investment grade, or
(ii) are rated below investment grade at origination and have been downgraded more than 2 notches since origination.

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

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

Impairment of financial assets – Policies under IFRS 9 (continued)

Debt securities and Deposits. (continued)

Stage 3 instruments are assets in default.

Other assets measured at amortised cost include, lease receivables, loan commitments and financial guarantee contracts. The assessment of significant increase in credit risk for these assets requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk at the reporting date has increased significantly relative to the date it was initially recognised. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses the Bank expects to incur.

All loans receive an initial risk rating at origination. The Group has established a credit quality review process involving analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations based on factors that include days past due ("DPD"), performance and other known material changes. Ratings of individual loans are based on the following criteria:

- Credit structure and cash flow stability;
- Specific loan and collateral characteristics;
- Guarantees and other credit support;
- Macro-economic factors; and
- Financial and management information for commercial loans.

This assessment results in each facility being classified as "low risk", "medium risk" or "high risk". The Group considers loans that have missed a full payment cycle, to have experienced a significant increase in credit risk. The Bank assesses loans as having experienced a significant increase in credit risk if any other qualitative indicator is triggered such as, known financial difficulty, credit issue with another account, expected forbearance or restructuring. If any of these factors indicates that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has migrated to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

Forward looking information
When management determines the macro-economic factors that impact the portfolios of financial assets, they first determine all readily available information within the relevant market. Portfolios of financial assets are segregated based on product type, historical performance and homogenous country exposures. There is often limited timely macro-economic data for Caribbean markets. Management assesses data sources from local government, International Monetary Fund and other reliable data sources. A regression analysis is performed to determine which factors are most closely correlated with the credit losses for each portfolio. Where projections are available, these are used to forecast up to three years and subsequently the long term average performance is then used for the remaining life of the product. These projections are reassessed on an annual basis.

Fair value of investment securities
Management uses its judgment in selecting appropriate valuation techniques to determine fair value of investment securities. These techniques are described in Note 44.

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

Estimates of future benefit payments and premiums arising from long duration insurance contracts The determination of the liabilities under insurance contracts represents the liability for future benefits payable by the Group based on contracts for the life assurance business in force at the date of the statement of financial position using the Policy Premium Method. These liabilities represent the amount which, together with future premiums and investment returns will, in the opinion of the actuary, be sufficient to pay future benefits relating to contracts of insurance in force, as well as meet the expenses incurred in connection with such contracts. The Policy Premium Method of valuation is based on assumptions of mortality, persistency, investment income, renewal expenses and other assumptions considered appropriate to be included in the basis for the determination of the liabilities of the Group under the terms of its life insurance policy contracts in force. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the Group's experience.

Future obligations for post-employment benefits
The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate on government bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

4. Responsibilities of the Appointed Actuaries and External Auditors

The Boards of Directors of our insurance subsidiary, pursuant to the Insurance Act, appoints the Actuary. Their responsibility is to carry out an annual valuation of the Group's policyholders' liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and shareholders. In performing the valuations for life insurance policies and annuities, the Actuary make assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force.

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

5. Net Interest Income

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Interest income				
Loans and advances	35,666,606	35,016,771	35,102,937	34,448,317
Investment securities –				
Fair value through other comprehensive income	15,302,472	16,763,128	6,428,037	5,617,067
Amortised cost	584,413	985,776	578,504	849,934
Reverse repurchase agreements	118,201	94,058	9,903	45,991
Deposits and other	406,894	382,241	382,775	351,091
	52,078,586	53,241,974	42,502,156	41,312,400
Interest expense				
Customer deposits	2,634,809	2,372,885	2,225,772	2,214,365
Repurchase agreements	6,434,477	5,196,810	2,598,568	2,465,419
Policyholders' benefits	-	984,397	-	-
Securitisation arrangements	2,799,544	3,473,877	2,799,544	3,473,877
Other borrowed funds and amounts due to other banks	2,083,009	2,577,945	1,186,141	1,319,385
	13,951,839	14,605,914	8,810,025	9,473,046
Net interest income	38,126,747	38,636,060	33,692,131	31,839,354

6. Net Fee and Commission Income

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Fee and commission income				
Commercial and consumer	3,723,543	4,309,817	3,723,543	4,309,817
Payment services	9,252,314	10,180,991	9,252,314	10,180,991
Corporate banking	1,209,183	957,043	1,209,183	976,752
Management fees	-	-	1,408,506	2,814,998
Treasury and correspondent banking	451,495	423,716	451,495	423,716
Wealth, asset management & investment banking	2,668,518	2,146,255	-	-
Life insurance and pension fund management	1,829,515	2,366,900	-	-
General insurance	-	260,131	-	-
Other	23,537	5,662	-	44,473
	19,158,105	20,650,515	16,045,041	18,750,747
Fee and commission expense				
Payment services	3,897,424	4,402,745	3,897,423	4,402,745
	15,260,681	16,247,770	12,147,618	14,348,002

7. Gain on Foreign Currency and Investment Activities

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Net foreign exchange gains	2,541,003	3,659,174	2,288,209	3,591,274
Loss on sale of debt securities held for trading	(32,823)	(20,553)	(9,110)	-
Gain on sale of debt securities at FVOCI	4,756,988	7,057,831	2,982,824	2,534,137
Interest income on FVPL instruments	479,739	253,647	22,677	207,802
Gain/(loss) on sale of equity securities	81,297	1,457,957	(30,933)	63,592
	7,826,204	12,408,056	5,253,667	6,396,805

Net foreign exchange gains include gains and losses arising from translation of assets and liabilities denominated in foreign currencies as well as those arising from foreign currency dealing activities.

8. Premium Income

	The Group	
	2020	**2019**
	$'000	**$'000**
Annuity contracts	-	1,351,413
Life insurance contracts	-	2,473,078
General insurance contracts	-	4,664,949
	-	8,489,440

9. Dividend Income

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Subsidiaries	-	-	3,184,606	11,310,832
Associates	-	-	-	68,518
Other equity securities	432,693	589,577	12,961	20,752
	432,693	589,577	3,197,567	11,400,102

10. Staff Costs

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Wages, salaries, allowances and benefits	14,455,329	14,389,091	12,979,970	12,027,916
Payroll taxes	1,354,708	1,513,886	1,244,383	1,244,738
Pension costs – defined contribution plans (Note 34)	438,765	443,530	377,799	347,594
Pension costs – defined benefit plans (Note 34)	-	57,547	-	-
Termination benefits	350,672	145,399	350,673	121,136
Staff profit share	353,194	2,659,810	152,463	2,059,743
Other post-employment benefits (Note 34)	526,419	765,345	526,419	736,403
	17,479,087	19,974,608	15,631,707	16,537,530

Wages, salaries, allowances and benefits
Included in wages, salaries, allowances and benefits are base salaries for employees. Amounts also include annual incentive and merit awards based on performance, annual and non-annual fringe benefits, including those that have been agreed based on collective bargaining with the trade unions representing staff.

Employees are categorised as permanent pensionable, contract, part-time and temporary.

11. Policyholders' and Annuitants' Benefits and Reserves

	The Group	
	2020	**2019**
	$'000	**$'000**
Annuity contracts	-	2,540,491
Life insurance contracts	-	(4,660,550)
General insurance contracts	-	3,023,301
	-	903,242

The above amounts included insurance claims by policyholders amounting to $Nil (2019 – $1,702,036,000) in respect of life insurance and annuity contracts and $Nil (2019 – $3,532,000,000) in respect of general insurance contracts.

12. Credit Impairment Losses

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities	(251,898)	(156,353)	275,009	(177,481)
Loans and advances	7,878,664	3,462,829	7,861,564	3,465,991
	7,626,766	3,306,476	8,136,573	3,288,510

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

13. Other Operating Expenses

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Auditors' remuneration	118,356	102,719	62,471	44,609
Credit card rebates	989,377	1,023,011	989,377	1,023,011
Insurance and premiums	742,761	462,732	699,878	627,873
Irrecoverable general consumption tax and asset tax	3,701,299	3,609,457	3,157,428	3,030,026
License and transaction processing fees	851,251	904,227	708,537	634,489
Marketing, customer care, advertising and donations	2,160,413	2,203,316	1,740,825	1,781,759
Operating lease rentals	-	309,481	-	228,654
Property, vehicle and ABM maintenance and utilities	3,773,805	3,769,274	3,722,701	3,463,667
Stationery	287,165	205,932	283,251	184,495
Technical, consultancy and professional fees	2,221,055	1,262,385	1,801,262	776,297
Travelling, courier and telecommunication	1,382,258	1,556,940	1,325,816	1,392,034
Management & royalty fees	3,379,810	6,856,934	3,253,994	6,736,322
Operational losses	953,556	619,095	936,512	594,470
Other	310,561	740,775	367,781	360,615
	20,871,667	23,626,278	19,049,833	20,878,321

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

14. Taxation

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Current:				
Income tax	3,932,170	6,972,308	3,333,005	3,931,119
Business levy & Green fund levy	10,606	9,812	-	-
Prior year (over)/under provision	(149,940)	9,518	(355,054)	84,148
Deferred income tax (Note 27)	(3,767,842)	(1,251,559)	(3,087,400)	(1,410,495)
	24,994	5,740,079	(109,449)	2,604,772

The tax on profit differs from the theoretical amount that would arise using the basic statutory rate of 25% for the life insurance subsidiary, 33⅓% for the Bank and other "regulated companies", 21% for the subsidiary incorporated in the United Kingdom and 25% for all other subsidiaries (with the exception of the subsidiaries incorporated in Cayman Islands). Business and Green Fund levy are in relation to our Trinidad subsidiary and are taxed at a rate of 0.6% and 0.3% of gross sales. The reconciliation of taxation is as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Profit before tax	10,964,274	31,037,687	7,034,289	27,335,009
Tax calculated at actual tax rates	1,773,608	8,552,099	2,344,529	9,110,758
Income not subject to tax	(2,036,720)	(3,349,009)	(1,262,279)	(3,319,859)
Expenses not deductible for tax purposes	860,635	633,590	682,836	503,392
Effect of share of profit of associates included net of tax	(503)	(3,363)	-	-
Effect of different tax rates applicable to dividend income	8,563	(36,271)	(1,063,649)	(3,786,643)
Deferred tax not recognised	122,895	70,069	-	-
Prior year (over)/under provision	(149,940)	9,518	(355,054)	84,148
Other	(553,544)	(136,554)	(455,832)	12,976
Taxation expense	24,994	5,740,079	(109,449)	2,604,772

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

14. Taxation (Continued)

Tax (charge)/credit relating to components of other comprehensive income is as follows:

	The Group			The Bank		
At September 30, 2020	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**
Currency translation gains	895,777	-	895,777	-	-	-
ECL and fair value gains on FVOCI investments, net of gains recycled to profit or loss	(9,448,612)	2,728,113	(6,720,499)	(4,845,847)	1,614,716	(3,231,131)
Remeasurement of post-employment benefit obligation	(118,095)	39,365	(78,730)	(118,095)	39,365	(78,730)
Other comprehensive income	(8,670,930)	2,767,478	(5,903,452)	(4,963,942)	1,654,081	(3,309,861)
Deferred income tax (Note 27)		2,767,478			1,654,081	

	The Group			The Bank		
At September 30, 2019	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**
Currency translation gains	90,783	-	90,783	-	-	-
Realised gains of a former associated company	324,329	-	324,329	-	-	-
ECL and fair value gains on FVOCI investments, net of gains recycled to profit or loss	6,527,153	(2,604,902)	3,922,251	4,254,190	(1,695,724)	2,558,466
Remeasurement of post-employment benefit obligation	318,957	(106,317)	212,640	241,707	(80,568)	161,139
Other comprehensive income	7,261,222	(2,711,219)	4,550,003	4,495,897	(1,776,292)	2,719,605
Deferred income tax (Note 27)		(2,711,219)			(1,776,292)	

15. Cash in Hand and Balances at Central Banks

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Cash in hand	17,663,689	13,234,048	17,662,787	13,233,537
Balances with central banks other than statutory reserves	19,087,813	10,010,169	17,092,752	9,751,752
Included in cash and cash equivalents	36,751,502	23,244,217	34,755,539	22,985,289
Statutory reserves with central banks – non-interest-bearing	34,458,238	36,943,292	33,970,815	36,252,278
	71,209,740	60,187,509	68,726,354	59,237,567

Statutory reserves with central banks represent the required ratio of prescribed functional and foreign currency liabilities. They are not available for investment, lending or other use by the Group.

16. Due from Other Banks

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Items in course of collection from other banks	-	697,572	-	871,386
Placements with other banks	80,820,011	58,103,507	67,543,695	46,470,272
	80,820,011	58,801,079	67,543,695	47,341,658
Interest receivable	3,739,669	3,500,186	3,739,658	3,499,981
	84,559,680	62,301,265	71,283,353	50,841,639
Less: Placements pledged as collateral for letters of credit (Note 21)	(2,052,790)	(1,864,574)	(2,052,790)	(1,864,574)
	82,506,890	60,436,691	69,230,563	48,977,065

Placements with other banks include short term fixed deposits and other balances held with correspondent banks. These balances are held to facilitate the payment of wire transfers, bank drafts, treasury related activities and to satisfy liquidity requirements.

The amounts included as cash equivalents in the statement of cash flows are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Due from other banks	82,506,890	56,936,505	69,230,563	45,477,084
Less: amounts restricted to the settlement of obligations under securitisation arrangements	(3,622,144)	(3,446,427)	(3,622,144)	(3,446,427)
	78,884,746	53,490,078	65,608,419	42,030,657

17. Derivative Financial Instruments

The carrying values of derivatives for the Group and the Bank are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
Assets	**$'000**	**$'000**	**$'000**	**$'000**
Forward contracts	287,758	-	287,758	
Equity indexed options	-	239,279	-	-
	287,758	239,279	287,758	-
Liabilities				
Equity indexed options	-	239,279	-	-
	287,758	239,279	287,758	-

Derivatives are carried at fair value in the statement of financial position as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group was to default.

Equity indexed options
The derivative liability represents the equity index option element of principal protected notes issued by the Group (Note 31(c)) and is carried at fair value.

The derivative asset represents equity index options purchased by the Group to match the liability. The terms of the purchased options are identical to those included in the principal protected notes issued by the Group. The Group is exposed to credit risk on purchased options to the extent of the carrying amount, which is their fair value.

18. Reverse Repurchase Agreements

The Group entered into collateralised reverse repurchase agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included within reverse repurchase agreements is related accrued interest receivable of $2,174,000 and $433,000 (2019 – $5,213,000 and $330,000) for the Group and the Bank.

At September 30, 2020, the Group held $6,990,479,000 (2019 – $3,040,121,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements. Of amounts received as collateral for reverse repurchase agreements, the Group has pledged $3,952,778,000 (2019 – $1,754,351,000) as collateral for some of their own repurchase agreements.

Included in reverse repurchase agreements for the Group and Bank are securities with an original maturity of less than 90 days amounting to $5,895,572 and $966,257 (2019 – $2,265,690,000 and $224,000) which are regarded as cash equivalents for purposes of the statement of cash flows.

19. Loans and Advances

	The Group		The Bank	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Gross loans and advances, includes mortgage loans	348,756,467	318,699,663	339,343,349	309,826,679
Provision for credit losses	(13,039,138)	(6,654,175)	(12,976,031)	(6,622,700)
	335,717,329	312,045,488	326,367,318	303,203,979
Interest receivable	1,398,219	869,440	1,312,235	808,123
	337,115,548	312,914,928	327,679,553	304,012,102

The current portion of loans and advances amounted to $38,580,564,000 (2019 – $50,491,713,000) for the Group and $36,228,774,000 (2019 – $49,384,255,000) for the Bank.

The movement in the provision for credit losses determined under the requirements of IFRS is as follows:

	The Group		The Bank	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at beginning of year	6,654,175	4,145,702	6,622,700	4,125,250
Provided during the year	8,759,254	4,377,747	8,727,328	4,358,917
Recoveries	(880,590)	(914,918)	(865,764)	(892,926)
Net charge to the income statement (Note 12)	7,878,664	3,462,829	7,861,564	3,465,991
Write-offs	(1,493,701)	(954,356)	(1,508,233)	(968,541)
Balance at end of year	13,039,138	6,654,175	12,976,031	6,622,700

The aggregate amount of non-performing loans on which interest was not being accrued as at September 30, 2020 was $9,574,184,000 (2019 – $7,873,353,000).

The provision for credit losses determined under Bank of Jamaica regulatory requirements is as follows:

	The Group and Bank	
	2020 $'000	2019 $'000
Specific provision	8,667,804	6,589,048
General provision	3,188,908	2,981,276
	11,856,712	9,570,324
Excess of regulatory provision over IFRS provision recognised in the Bank reflected in non-distributable loan loss reserve (Note 38)	-	2,947,624

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

20. Investment Securities

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Investment Securities Classified as FVPL:				
Government of Jamaica debt securities	9,565	51,084	-	-
Other Government Securities	4,017,789	3,703,255	-	-
Corporate Debt Securities	7,425,109	6,051,045	301,599	310,710
Quoted and Unquoted equities	8,292,708	7,033,161	18,255	172,013
Collective Investment Schemes	287,026	353,656	-	-
Interest receivable	19,845	22,486	925	925
	20,052,042	17,214,687	320,779	483,648
Investment Securities Classified as FVOCI				
Government of Jamaica debt securities	252,749,758	207,704,354	157,831,952	114,257,955
Other Government Securities	17,578,842	13,551,494	5,141,439	4,861,407
Corporate Debt Securities	82,961,609	101,480,677	11,645,572	13,531,556
Interest receivable	4,032,610	3,643,602	2,073,351	1,645,632
	357,322,819	326,380,127	176,692,314	134,296,550
Investment securities at Amortised Costs				
Government of Jamaica debt securities	9,034,313	30,506,855	8,211,159	27,982,133
Other Government Securities	1,697,318	157,900	1,697,318	157,900
Corporate Debt Securities	1,132,574	-	-	-
Interest receivable	122,026	153,698	118,604	153,404
	11,986,231	30,818,453	10,027,081	28,293,437
Expected credit losses	(41,258)	(236,723)	(41,102)	(39,025)
	389,319,834	374,176,544	186,999,072	163,034,610
Total investment securities, as above	389,319,834	374,176,544	186,999,072	163,034,610
Less: Pledged securities (Note 21)	(216,809,454)	(201,751,485)	(113,705,293)	(106,483,804)
Amount reported on the statement of financial position	172,510,380	172,425,059	73,293,779	56,550,806

The current portion of total investment securities amounted to $45,140,233,000 (2019 - $47,489,780,000) for the Group and $33,811,595,000 (2019 - $25,795,549,000) for the Bank.

Included in investment securities are debt securities with an original maturity of less than 90 days amounting to $Nil (2019 - $13,330,830,000) for the Group and $Nil (2019 - $10,806,108,000) for the Bank which are regarded as cash and cash equivalents for purposes of the statement of cash flows.

21. Pledged Assets

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Investment securities pledged as collateral for:				
Repurchase agreements	211,647,640	200,759,997	112,828,014	105,605,305
Clearing services	743,650	878,499	877,279	878,499
Investment securities held as security in respect of life insurance subsidiary	4,418,164	112,989	-	-
	216,809,454	201,751,485	113,705,293	106,483,804
Placements with other banks pledged as collateral for letters of credit (Note 16)	2,052,790	1,864,574	2,052,790	1,864,574
	218,862,244	203,616,059	115,758,083	108,348,378

The Financial Services Commission holds investment securities for certain subsidiaries in accordance with Section 8(1)(B) of the Insurance Regulations 2001.

22. Investment in Associates

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
At the beginning of the year	112,734	5,738,172	-	1,680,328
Disposal	-	(5,567,009)	-	(1,680,328)
Share of profits	1,507	10,089	-	-
Dividends received:				
JMMB Group Limited	-	(68,518)	-	-
At end of year	114,241	112,734	-	-

In the previous period, the Group disposed of its 20.01% shareholdings in JMMB Group Limited. Consideration for the disposal was $9,182,882,000, (settled with debt instruments) and gains of $3,291,544,000 and $7,107,970,000 for the Group and Bank respectively was recognised. Included in the gain for the Group were amounts previously recognised in OCI of $324,329,000 which were recycled to profit and loss.

The Group has used the financial statements of its associates as at June 30 for the purpose of equity accounting to facilitate the availability of financial information in accordance with the Group's reporting timetable. Adjustments are made for significant transactions or events, where identified, that occur between that date and September 30.

22. Investment in Associates (Continued)

The carrying values of investment in associates and the values indicated by prices quoted on the Jamaica Stock Exchange (“JSE Indicative Value”) as at September 30 are as follows:

	The Group			
	Carrying Value	JSE Indicative Value	Carrying Value	JSE Indicative Value
	2020	2020	2019	2019
	$'000	$'000	$'000	$'000
Elite Diagnostic	85,929	208,036	84,322	356,634
Mundo Finance	28,312	-	28,412	-
Dyoll Group Limited	-	-	-	-
	114,241	208,036	112,734	356,634

The following tables present summarised financial information in respect of the Group’s associated companies.

	Elite Diagnostic Limited	Mundo Finance Limited	Total
	$'000	$'000	$'000
2020			
Current assets	87,330	98,070	185,400
Non-current assets	603,231	406,716	1,009,947
Current liabilities	22,934	18,329	41,263
Non-current liabilities	207,867	429,833	637,700
Revenue	439,845	115,745	555,590
Percentage ownership	18.69%	50.00%	
Net assets of the associate - 100%	459,761	56,624	
Group share of net assets	85,929	28,312	

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

22. Investment in Associates (Continued)

	Elite Diagnostic Limited $'000	Mundo Finance Limited $'000	Total $'000
2019			
Current assets	102,314	65,123	167,437
Non-current assets	561,706	469,355	1,031,061
Current liabilities	17,192	47,821	65,013
Non-current liabilities	195,667	429,833	625,500
Revenue	404,867	72,695	477,562
Total comprehensive income	51,823	847	52,670

Percentage ownership	18.69%	50.00%
Net assets of the associate - 100%	451,161	56,824
Group share of net assets	84,322	28,412

23. Investment Properties

	The Group	
	2020	2019
	$'000	$'000
Balance at beginning of year	104,310	839,106
Reclassified from properties for development and sale (Note 24)	574,968	-
Disposal of subsidiary (Note 49)	-	(734,796)
Balance at end of year	679,278	104,310
Income earned from the properties	6,679	56,007
Expenses incurred by the properties	-	(35,405)

The Group did not classify any properties held under operating leases as investment properties. The properties held are stated at fair market value, as appraised by professional, independent valuators. The value for the property was determined using the direct capitalisation approach.

The valuations of investment property have been classified as Level 3 of the fair value hierarchy under IFRS 13, 'Fair Value Measurement'.

Several valuations have been performed using a comparable sales approach but, as there have been a limited number of similar sales in the respective markets, these valuations incorporate unobservable inputs determined based on the valuators' judgment regarding size, age, condition and state of the local economy. Similarly, the valuations that are performed using the direct capitalisation and income approaches rely on unobservable inputs based on the valuator's judgment given the varying levels of income between properties within a relatively small geographic area as well as the unavailability of risk-adjusted discount rates for properties. A key estimate used by these valuators is one for vacancy. These valuations are sensitive to the aforementioned adjustments for the unobservable inputs, which inputs may result in the values realised, either through use or sale, being different from the amounts recognised in these financial statements.

24. Properties for Development and Sale

	The Group	
	2020	2019
	$'000	$'000
Opening balance	369,904	369,904
Additions	205,064	-
Transferred to investment properties (Note 23)	(574,968)	-
	-	369,904

In the previous year, properties for development and sale comprised the Group's investment properties located at Kingsway and Birdsucker Lane. These properties were previously earmarked for residential development, however, the intention for holding the properties have changed and the amounts have been reclassified to investment properties.

25. Intangible Assets

	The Group			
	Trade name $'000	Customer relationships $'000	Computer Software $'000	Total $'000
			2020	
Net book value, at beginning of year	-	-	9,923,294	9,923,294
Translation adjustment	-	-	5,923	5,923
Additions	-	-	4,221,090	4,221,090
Amortisation charge	-	-	(2,835,236)	(2,835,236)
Net book value, at end of year	-	-	11,315,071	11,315,071
Cost	-	-	22,737,457	22,737,457
Accumulated amortisation	-	-	(11,422,386)	(11,422,386)
Closing net book value	-	-	11,315,071	11,315,071
			2019	
Net book value, at beginning of year	170,634	20,528	7,248,107	7,439,269
Disposal of subsidiary	(160,311)	-	(121,204)	(281,515)
Translation adjustment	-	-	(693)	(693)
Additions	-	-	4,691,747	4,691,747
Amortisation charge	(10,323)	(20,528)	(1,894,663)	(1,925,514)
Net book value, at end of year	-	-	9,923,294	9,923,294
Cost	238,974	358,162	18,508,595	19,105,731
Accumulated amortisation	(238,974)	(358,162)	(8,585,301)	(9,182,437)
Closing net book value	-	-	9,923,294	9,923,294

25. Intangible Assets (Continued)

	The Bank	
	Computer Software	
	2020	**2019**
	$'000	**$'000**
Net book value, at beginning of year	9,304,168	6,629,650
Additions	3,848,646	4,333,127
Amortisation charge	(2,591,787)	(1,658,609)
Net book value, at end of year	10,561,027	9,304,168

	2020	**2019**
	$'000	**$'000**
Cost	20,640,584	16,791,938
Accumulated amortisation	(10,079,557)	(7,487,770)
Net book value	10,561,027	9,304,168

Computer software for the Group at year end include items with a cost of $2,477,104,300 (2019 - $2,885,883,000) on which no amortisation has yet been charged as these software applications are in the process of implementation.

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

26. Property, Plant and Equipment

	The Group				
	Freehold Land and Buildings and Leasehold Improvements	Motor Vehicles, Furniture & Equipment	Assets Capitalised Under Finance Leases	Work-in-Progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost -					
At October 1, 2018	8,699,800	11,244,197	939,578	289,179	21,172,754
Disposal of subsidiary	(928,922)	(538,322)	(12,976)	(5,954)	(1,486,174)
Additions	54,893	1,138,122	406,481	559,940	2,159,436
Disposals	(118,187)	(82,434)	(191,676)	-	(392,297)
Transfers	610,586	28,008	-	(638,594)	-
Reclassifications and adjustments	124,166	(1,796)	-	(4,477)	117,893
At September 30, 2019	8,442,336	11,787,775	1,141,407	200,094	21,571,612
Disposal of subsidiary					
Additions	519,424	801,881	-	939,611	2,260,916
Disposals	(98,241)	(4,115)	-	-	(102,356)
Transfers	45,818	-	-	(45,818)	-
Reclassifications and adjustments	-	(174,295)	174,295	-	-
Transfer to Right-of-use asset	(597,435)	-	(1,315,702)	-	(1,913,137)
At September 30, 2020	8,311,902	12,411,246	-	1,093,887	21,817,035
Accumulated Depreciation -					
At October 1, 2018	1,728,404	7,756,296	495,445	-	9,980,145
Charge for the year	375,379	1,210,531	278,284	-	1,864,194
Disposals	(18,983)	(82,034)	(182,735)	-	(283,752)
Disposal of subsidiary	(33,725)	(394,881)	(11,692)	-	(440,298)
Reclassifications and adjustments	(252)	41,665	(1)	-	41,412
At September 30, 2019	2,050,823	8,531,577	579,301	-	11,161,701
Charge for the year	400,015	1,171,177	-	-	1,571,192
Disposals	(43,551)	(4,075)	-	-	(47,626)
Reclassifications and adjustments	-	80,737	(80,737)	-	-
Transfer to Right-of-use asset	(651,514)	-	(498,564)	-	(1,150,078)
At September 30, 2020	1,755,773	9,779,416	-	-	11,535,189
Net Book Value -					
September 30, 2020	6,556,129	2,631,830	-	1,093,887	10,281,845
September 30, 2019	6,391,513	3,256,198	562,106	200,094	10,409,911

26. Property, Plant and Equipment (Continued)

	The Bank				
	Freehold Land and Building and Leasehold Improvements	**Motor Vehicles, Furniture & Equipment**	**Assets Capitalised Under Finance Leases**	**Work-in-Progress**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cost -					
At October 1, 2018	7,860,999	10,421,518	908,020	231,334	19,421,871
Additions	50,836	1,106,346	384,924	547,205	2,089,311
Disposals	(20,300)	(82,441)	(177,896)	-	(280,637)
Transfers	610,586	28,008	-	(638,594)	-
At September 30, 2019	8,502,121	11,473,431	1,115,048	139,945	21,230,545
Additions	519,424	777,408	-	937,757	2,234,589
Disposals	(98,241)	(4,115)	-	-	(102,356)
Transfers	45,818	-	-	(45,818)	-
Transfer to Right-of-use asset	657,220	-	(1,115,048)	(12,611)	(1,784,879)
At September 30, 2020	8,311,902	12,246,724	-	1,019,273	21,577,899
Accumulated Depreciation -					
At October 1, 2018	1,562,838	7,340,276	476,723	-	9,379,838
Charge for the year	338,795	1,155,726	259,383	-	1,753,904
Disposals	(6,488)	(82,034)	(169,945)	-	(258,467)
At September 30, 2019	1,895,145	8,413,968	566,161	-	10,875,275
Charge for the year	400,015	1,158,642	-	-	1,558,657
Disposals	(43,551)	(4,075)	-	-	(47,626)
Transfer to Right-of-use asset	(495,835)	-	(566,161)	-	(1,061996)
At September 30, 2020	1,755,774	9,568,535	-	-	11,324,310
Net Book Value -					
September 30, 2020	6,556,128	2,678,189	-	1,019,264	10,253,581
September 30, 2019	6,606,976	3,059,463	548,887	139,945	10,355,270

The carrying value of collaterialized assets capitalised under finance leases amounted to $Nil (2019 – $899,176,000).

27. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 25% (2019: 25%) for the life insurance subsidiary, 33⅓% for the Bank and other "regulated companies", 21% for the subsidiary incorporated in the United Kingdom and 25% for all other subsidiaries; with the exception of the subsidiaries incorporated in the Cayman Islands.

The net assets recognised in the statement of financial position are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Deferred tax assets	(7,420,845)	(4,420,834)	(7,059,258)	(4,217,474)
Deferred tax liabilities	124,641	3,679,950	-	1,899,697
Net asset at end of year	(7,296,204)	(740,884)	(7,059,258)	(2,317,777)

The movement in the net deferred income tax balance is as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Net asset at beginning of year	(740,884)	(2,234,033)	(2,317,177)	(2,683,574)
Disposal of subsidiary	-	33,489	-	-
Deferred tax credited in the income statement (Note 14)	(3,767,842)	(1,251,559)	(3,087,400)	(1,410,495)
Deferred tax (credited)/charged to other comprehensive income (Note 14)	(2,767,478)	2,711,219	(1,654,081)	1,776,292
Net asset at end of year	(7,296,204)	(740,884)	(7,059,258)	(2,317,777)

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

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Deferred tax assets to be recovered after more than 12 months	(4,602,183)	(2,629,316)	(4,508,093)	(2,349,964)
Deferred tax liabilities to be settled after more than 12 months	159,990	852,724	-	267,538

27. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities, prior to offsetting of balances, are due to the following items:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Deferred income tax assets:				
Property, plant and equipment	2,565,485	1,016,812	2,401,011	868,526
Investment securities	779,102	-	659,118	-
Credit impairment losses	1,470,032	4,837	1,470,027	21,491
Pensions and other post-retirement benefits	2,081,968	1,867,130	2,081,968	1,867,130
Interest payable	275,918	245,172		-
Unrealised foreign exchange loss	206,636	300,567	206,636	296,945
Other temporary differences	461,507	457,150	240,498	199,572
	7,840,648	3,891,668	7,059,258	3,253,664
Deferred income tax liabilities:				
Investment securities at FVPL	15,485	1,278,499	-	935,887
Investments securities at FVOCI	197,448	1,437,614	-	-
Interest receivable	265,095	428,557	-	-
Unrealised foreign exchange gains	13,528	3	-	-
Credit impairment losses	50,790	-	-	-
Other temporary differences	2,098	6,111	-	-
	544,444	3,150,784	-	935,887
Net deferred tax asset	(7,296,204)	(740,884)	(7,059,258)	(2,317,777)

27. Deferred Income Taxes (Continued)

The amounts recognised in the income statement are due to the following items:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Property, plant and equipment	(551,205)	(271,681)	(565,230)	(226,988)
Investment securities	(492,901)	205,126	(38,790)	-
Credit impairment losses	(1,946,420)	(289,029)	(1,855,109)	(288,995)
Pensions and other post-retirement benefits	(175,473)	(255,551)	(175,473)	(239,273)
Interest receivable	(264,780)	17,296	-	-
Interest payable	(30,712)	(84,927)	-	-
Accrued profit share	43,250	7,961	-	-
Accrued vacation leave	(22,504)	-	(22,396)	-
Unrealised foreign exchange losses	(297,460)	(528,922)	(281,231)	(610,059)
Other temporary differences	(29,637)	(51,832)	(149,171)	(45,180)
	(3,767,842)	(1,251,559)	(3,087,400)	(1,410,495)

The amounts recognised in other comprehensive income are due to the following items:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Unrealised gains investments at FVOCI	(3,660,025)	2,786,685	(1,614,716)	1,695,724
Realised fair value loss/(gains) on sale and maturity of investments	931,912	(181,783)	-	-
Remeasurement of post-employment benefit obligation	(39,365)	106,317	(39,365)	80,568
	(2,767,478)	2,711,219	(1,654,081)	1,776,292

28. Other Assets

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Due from merchants, financial institutions, clients and payment systems providers	4,418,564	5,958,530	3,206,368	4,213,581
Prepayments	2,138,606	1,867,832	1,946,737	1,656,116
Shares held for Incentive	4,393,917	-	4,393,917	-
Management fees & royalties	-	-	358,017	1,020,714
Other	1,294,706	1,958,617	829,195	650,623
	12,245,793	9,784,979	10,734,234	7,541,034

The fair values of other assets approximate carrying values. All receivable balances are due within the next 12 months.

29. Due to other Banks

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Items in course of payment	3,356,657	3,216,262	3,342,944	3,203,525
Borrowings from other banks	15,893,170	13,853,851	14,510,527	11,803,851
Deposits from other banks	57,017	53,605	15,284,290	3,474,342
Other	1,470	1,863	1,519	1,862
	19,308,314	17,125,581	33,139,280	18,483,580
Interest payable	206,150	141,994	328,127	120,974
	19,514,464	17,267,575	33,467,407	18,604,554

Items in the course of payment primarily represent cheques drawn by the Bank which have been accounted for as a deduction from its bank balances, but which have not been presented on its bank accounts. These relate to accounts held with banks outside of Jamaica and at Central Banks. Borrowings from other banks are denominated in United States dollars and have various maturity dates, these attract interest at 2.07%-4.17% per annum.

The amounts included as cash equivalents in the statement of cash flows are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Total due to other banks	19,308,314	17,125,581	33,139,280	18,483,580
Less: amounts with original maturities of greater than 90 days	(11,472,949)	(7,477,272)	(11,350,972)	(8,839,712)
	7,835,365	9,648,309	21,788,308	9,643,868

30. Obligations under Securitisation Arrangements

	The Group and The Bank	
	2020	2019
	$'000	$'000
Diversified payment rights		
Principal outstanding – US$250,000,000 (2019 – US$50,000,000)	35,392,925	6,707,100
Merchant voucher receivables		
Principal outstanding – US$254,212,000 (2019 – US$308,649,000)	35,989,286	41,402,758
	71,382,211	48,109,858
Unamortised transaction fees	(775,084)	(369,758)
	70,607,127	47,740,100
Interest payable	476,830	565,723
Net liability	71,083,957	48,305,823

The current portion of obligations under securitisation arrangements amounted to $10,656,363,000 (2019 – $13,772,240,000).

Diversified Payment Rights

NCBJ has entered into a number of structured financing transactions involving securitisation of its Diversified Payment Rights. A Diversified Payment Right ("DPR") is a right of NCBJ to receive payments from correspondent banks based overseas whenever a payment order is initiated by a person or entity situated overseas in favour of a person or entity situated in Jamaica. Under these securitisation transactions, NCBJ assigns its rights to all present and future DPRs to an offshore special purpose vehicle, Jamaica Diversified Payment Rights Company Limited ("JDPR") (Note 32), which then issues notes which are secured by DPR flows. The cash flows generated by the DPRs are used by JDPR to make scheduled principal and interest payments to the note holders and any excess cash is transferred to NCBJ, provided no early amortisation event or default has occurred under the terms of the notes.

On May 30, 2013, NCBJ raised US$100 million through the DPR Securitisation (Series 2013-1 Notes). The transaction was structured with an interest-only period of eighteen months and thereafter quarterly principal amortisation on a straight line basis, beginning September 15, 2014 to final maturity on March 15, 2020. Interest is due and payable on a quarterly basis calculated at three month US dollar LIBOR plus 675 basis points beginning September 15, 2015.

On February 21, 2014, NCBJ increased the existing Series 2013-1 Notes by US$25 million on the same terms as the existing Notes.

On April 25, 2014, the holders of the Series 2013-1 Notes exercised their option to extend the maturity of the Notes by 12 months, adjusting the principal amortisation to commence on September 15, 2015 and final maturity to March 15, 2020.

On April 27, 2015, the holders of the Series 2013-1 Notes exercised their option to extend the maturity of the Notes by 12 months, adjusting the principal amortisation to commence on September 15, 2016 and final maturity to March 16, 2020.

30. Obligations under Securitisation Arrangements (Continued)

Diversified Payment Rights (continued)

On March 28, 2016, the holders of the Series 2013-1 Notes exercised their third and final option to extend the maturity of the Notes by 12 months, adjusting the principal amortisation to commence on September 15, 2019 and final maturity to March 15, 2021.

On September 30, 2020, NCBJ raised US$250 million through the DPR Securitisation (Series 2020-1 Notes). The transaction was structured with an interest-only period of 3.25-year (13 quarters) and thereafter quarterly principal amortisation on a straight line basis, beginning March 15, 2024 to final maturity on September 15, 2030. Interest is due and payable on a quarterly basis calculated at a rate of 5.25% beginning December 15, 2020. Part proceeds were used to retire the Series 2013-1 Notes.

Merchant Voucher Receivables

NCBJ has entered into a structured financing transaction involving securitisation of its Merchant Voucher Receivables (MVR). This arrangement involves the sale of future flows due from Visa International Service Association (Visa) and MasterCard International Incorporated (MasterCard) related to international merchant vouchers acquired by NCBJ in Jamaica.

A merchant voucher is created when an international Visa or MasterCard cardholder pays for goods or services at a NCB merchant. NCB approves the charge, pays the merchant under contractual terms, and submits the merchant voucher information to Visa or MasterCard for settlement. Upon approval and receipt of the charge information, Visa or MasterCard is obligated to pay the amounts due, and this represents a receivable under the transaction.

Arising from this arrangement, NCBJ transferred its rights to all future receivables to an off-shore special purpose company (SPC), Jamaica Merchant Voucher Receivables Limited (“JMVR”), which then issues notes which are secured by the MVR flows. The cash flows generated by the MVR are used by JMVR to make scheduled principal and interest payments to the note holders and any excess cash is transferred to NCBJ, provided no early amortisation event or default has occurred under the terms of the notes.

On May 18, 2015, NCBJ raised US$250 million through the MVR securitisation transaction. The transaction was structured on a mortgage-style amortisation basis with an interest-only period of twenty-eight months and thereafter quarterly principal amortisation, beginning October 6, 2019 to final maturity on July 8, 2022. Interest is due and payable on a quarterly basis calculated at a rate of 5.875% beginning July 7, 2015.

On November 21, 2016, NCBJ raised an additional US$150 million through the MVR securitisation transaction. The transaction was structured on a mortgage-style amortisation basis with an interest-only period of forty-one months and thereafter quarterly principal amortisation, beginning July 7, 2020 to final maturity on January 8, 2027. Interest is due and payable on a quarterly basis calculated at a rate of 5.625% beginning January 9, 2019.

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

31. Other Borrowed Funds

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
(a) Development Bank of Jamaica	4,479,957	4,529,782	3,168,997	3,238,305
(b) Corporate notes	17,446,817	27,439,212	7,000,000	7,000,000
(c) Principal protected notes	-	173,527	-	-
(d) National Housing Trust	3,202,888	1,604,295	3,202,888	1,604,295
(e) Finance lease obligations	-	558,865	-	533,319
(f) Other	88,320	63,205	86,610	61,496
	25,217,982	34,368,886	13,458,495	12,437,415
Unamortised transaction fees	(5,540)	(21,644)	(5,540)	(21,644)
Interest payable	207,310	307,587	113,867	117,599
	25,419,752	34,654,829	13,566,822	12,533,370

The current portion of other borrowed funds amounted to $9,146,117,000 (2019 – $15,043,597,000) for the Group and $104,711,000 (2019 – $3,005,808,000) for the Bank.

(a) The loans from Development Bank of Jamaica are granted in both Jamaican and US dollars and are utilised by the Group to finance customers with viable ventures in agricultural, agro-industrial, construction, manufacturing, mining and tourism sectors of the economy. These loans are for terms up to 12 years and at rates ranging from 4 % – 7%.

(b) Corporate notes are both unsecured and secured variable and fixed rate notes issued in a combination of Jamaican dollars and United States dollars. The notes are repayable between 2020 and 2025. The fixed rate notes attract interest between 4.5% and 9.0% and the variable rate notes attract interest of the six month weighted average on treasury bill yield plus 2.25% - 2.5% per annum.

(c) The Group has issued principal protected notes which entitle the holders to participate in positive returns on the Euro Stoxx 50 or S&P 500 indices while providing a principal protection feature with or without an annual coupon interest payment. If the return on the index is negative, the holder will obtain the principal invested for the notes. Both the principal and interest payments are indexed to the US dollar. These notes are structured products and comprise a fixed income element accounted for at amortised cost (disclosed above) and a derivative (equity indexed option) element disclosed in Note 17.

31. Other Borrowed Funds (Continued)

(d) The loans from National Housing Trust (NHT) are granted as part of the Joint Financing Mortgage Programme. Under the partnership agreement, NHT contributors are able to access their NHT loans directly from NCBJ at the prevailing interest rate offered by NHT. These loans are for the terms up to 40 years at rates ranging from 0% - 6%.

(e) The finance lease obligations are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Minimum lease payments under finance leases:				
Not later than 1 year	-	321,090	-	309,409
Later than 1 year and not later than 5 years	-	279,897	-	261,020
	-	600,987	-	570,429
Future finance charges	-	(42,122)	-	(37,110)
Present value of finance lease obligations	-	558,865	-	533,319

The present value of finance lease obligations is as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Not later than 1 year	-	292,367	-	283,467
Later than 1 year and not later than 5 years	-	266,498	-	249,852
	-	558,865	-	533,319

32. Interests in Structured Entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include holdings of debt or equity securities and investment management agreements. Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 2(s).

Consolidated Structured Entities

Securitisation Vehicles
The Group uses securitisation as a source of financing and a means of risk transfer. Securitisation of its DPR and MVR (Note 30) is conducted through structured entities, JDPR and JMVR, exempted limited liability companies incorporated under the laws of the Cayman Islands. The relationship between the transferred rights and the associated liabilities is that holders of Notes may only look to cash flows from the securitised assets for payments of principal and interest due to them under the terms of their Notes.

Unconsolidated Structured Entity
A subsidiary of the Group manages a Unit Trust Scheme comprising seven portfolios – the JMD Money Market Portfolio, the JMD High Yield Portfolio, the High Yield Asset and Loans Portfolio, the Caribbean Equity Portfolio, the USD Money Market Portfolio, the USD Indexed Bond Portfolio and the USD Bond Portfolio.

The Unit Trust has an independent trustee. The subsidiary is the investment manager of the Unit Trust and is entitled to receive management fees based on the assets under management. The Group also holds units in the Unit Trust.

32. Interests in Structured Entities (Continued)

Unconsolidated Structured Entity **(continued)**

The table below shows the total assets of the Unit Trust, the Group's interest in and income arising from involvement with the Unit Trust as well as the maximum exposure to loss. The maximum exposure to loss from the Group's interests represents the maximum loss that the Group could incur as a result of its involvement with the Unit Trust regardless of the probability of the loss being incurred. The income from the Group's interest includes recurring and non-recurring fees and any mark-to-market gains/losses on a net basis.

	The Group	
	2020	**2019**
	$'000	**$'000**
Total assets of the Unit Trust	34,667,207	35,664,095
The Group's interest – Carrying value of units held (included in FVOCI securities – Note 20)	142,516	186,545
Maximum exposure to loss	142,516	186,545
Liability to the Unit Trust in relation to investment in repurchase obligations (included in repurchase obligations on the consolidated statement of financial position)	1,710,794	2,090,433
Total income from the Group's interests	765,306	720,448

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to the Unit Trust in the future.

33. Liabilities under Annuity and Insurance Contracts

The Group's liabilities under annuity and insurance contracts arise from the operations of its life insurance subsidiary and its general insurance subsidiary. The insurance portfolio of the life insurance subsidiary was sold to a fellow subsidiary during the year and the general insurance subsidiary was disposed of in the prior year.

The life insurance subsidiary issues life insurance and annuity contracts. These contracts insure human life events (for example, death or survival) over a long duration.

The general insurance subsidiary issues property and casualty insurance contracts. Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability). Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Liabilities under Annuity and Insurance Contracts comprise the following:

	The Group	
	2020	2019
	$'000	$'000
Liabilities under life insurance and annuity contracts	-	28,776,695
	-	28,776,695

Liabilities under Life Insurance and Annuity Contracts

	The Group	
	2020	2019
	$'000	$'000
(a) Composition of liabilities under life insurance and annuity contracts:		
Life assurance fund	-	29,207,164
Risk reserve	-	(622,212)
Benefits and claims payable	-	92,388
Unprocessed premiums	-	99,355
	-	28,776,695

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

	The Group	
	2020	**2019**
	$'000	**$'000**
(b) Change in policyholders' liabilities:		
Life assurance fund:		
At the beginning of the year	29,207,164	27,922,603
Gross premiums	3,913,781	4,029,888
Premium refunds	(1,753)	(1,928)
Mortality charges transferred to the income statement	(188,246)	(161,469)
Fees transferred to the income statement	(488,623)	(473,821)
Claims and benefits	(2,735,956)	(3,092,506)
Interest credited	915,372	984,397
Disposal of insurance portfolio	(30,621,739)	-
At the end of the year	-	29,207,164
Risk reserve:		
At the beginning of the year	(622,212)	3,199,883
Issue of new contracts	359,072	(7,601)
Normal changes	1,257,656	(334,563)
Effect of change in assumptions:		
Base renewal expense levels	-	(1,081,657)
Investment returns	828,155	(2,520,150)
Lapse and surrender rates	1,103,174	(26,399)
Mortality rates	-	148,275
Disposal of insurance portfolio	(2,925,845)	-
At the end of the year	-	(622,212)
Benefits and claims payable:		
At the beginning of the year	92,388	67,882
Policyholders' claims and benefits	326,152	332,631
Benefits and claims paid	(216,251)	(308,125)
Disposal of insurance portfolio	(202,289)	-
At the end of the year	-	92,388

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

	The Group	
Unprocessed premiums:	**2020**	**2019**
	$'000	**$'000**
At the beginning of the year	7,106,483	7,473,010
Premiums received	(6,945,286)	(7,468,515)
Premiums applied	(161,197)	-
Disposal of insurance portfolio	-	99,355
At the end of the year		

The movement in the risk reserve per type of contract is as follows:

	The Group 2020			
	Annuity	**Individual life**	**Group life**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Balance brought forward	10,166,595	(11,765,600)	976,793	(622,212)
Changes in assumptions:				
Investment returns	356,979	350,522	120,654	828,155
Lapse and surrender rates	-	1,118,628	(15,453)	1,103,175
Issue of new contracts	644,951	(690,084)	404,205	359,072
Normal changes	1,194,637	261,630	(198,611)	1,257,656
Disposal of insurance portfolio	(12,363,162)	10,724,904	(1,287,588)	(2,925,846)
Net change	(10,166,595)	11,765,600	(976,793)	622,212
	-	-	-	-

	2019			
	$'000	**$'000**	**$'000**	**$'000**
Balance brought forward	8,869,545	(6,825,304)	1,155,642	3,199,883
Changes in assumptions:				
Investment returns	(904,369)	(1,588,300)	(27,481)	(2,520,150)
Base renewal expense levels and inflation	18,526	(988,819)	(111,364)	(1,081,657)
Lapse and surrender rates	-	(26,399)	-	(26,399)
Mortality rates	148,275	-	-	148,275
	(737,568)	(2,603,518)	(138,845)	(3,479,931)
Issue of new contracts	636,220	(991,992)	348,171	(7,601)
Normal changes	1,398,398	(1,344,786)	(388,175)	(334,563)
Net change	1,297,050	(4,940,296)	(178,849)	(3,822,095)
	10,166,595	(11,765,600)	976,793	(622,212)

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)
The Group's life insurance subsidiary holds assets that match insurance liabilities. These assets comprise mainly investment securities, which are classified as FVOCI and amortised cost, and reverse repurchase agreements.

The assets supporting policyholders' and other liabilities are as follows:

	The Group			
	2019			
	Annuity Contracts	**Individual and Group Life Insurance Contracts**	**Other Liabilities, Surplus and Capital**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities	13,176,394	26,056,535	9,032,470	48,265,399
Reverse repurchase agreements	323,304	1,250,643	342,067	1,916,014
Other assets	1,522,358	490,812	424,041	2,437,211
Property, plant and equipment	-	-	28,828	28,828
Intangible asset – computer software	-	-	347,106	347,106
	15,022,056	27,797,990	10,174,512	52,994,558

(expressed in Jamaican dollars unless otherwise indicated)

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

Policy assumptions

For insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect the latest best estimates. The assumptions used for valuing the insurance contracts disclosed in this note are as follows:

Mortality and morbidity

Mortality estimates are made as to the expected number of deaths for each of the years in which the Group's life insurance subsidiary is exposed to risk. These assumptions are based on North American standard industry mortality tables adjusted to reflect recent local historical experience. Assumptions vary by sex, underwriting class and type of insurance contract. The main source of uncertainty is that epidemics and wide ranging lifestyle changes, such as eating, smoking and exercise habits could result in future mortality being significantly worse than in the past for age groups in which the Group's life insurance subsidiary has significant exposure to mortality risk. Conversely, improvements in longevity in excess of those allowed for in determining the liabilities, could result in a lessening of future liabilities.

Morbidity relates to the frequency of illness, sickness and diseases contracted. The rate of recovery from such afflictions is derived from industry experience studies, adjusted where appropriate from the Group's life insurance subsidiary's own experience.

Investment yields

The Group's life insurance subsidiary matches assets and liabilities. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Group's life insurance subsidiary's investment policy to determine expected rates of return on these assets for all future years. Investment yields include expected future asset defaults. For the current valuation these are:

	The Group	
	2019	
	Individual & Group Life	**Annuities**
Year 1	7.27%	13.05%
Year 2 – 10	Decreasing to 6.69%	Decreasing to 11.16%
Year 11 – 29	Increase to 8.07%	Decreasing to 9.73%
Years 30 - 32	Increase to 8.11%	Increase to 9.90%
Year 33 onwards	8.10%	9.90%

The main source of uncertainty is the fluctuation of investment yield. Lower yields would result in higher reserves and reduced income.

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)
Policy assumptions (continued)
Persistency
Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's life insurance subsidiary's own experience adjusted for expected future conditions. A statistical study of the past two years is performed in order to determine an appropriate persistency rate and best estimates of future rates are determined by examining any trends in the data. The main source of uncertainty derives from changes in policyholder behaviour as these relate to changes in economic conditions.

Renewal expenses and inflation
Policy maintenance expenses are derived from the Group's life insurance subsidiary's own internal cost studies projected into the future with an allowance for inflation as shown below:

	2020	2019
Year 1	-	4.42%
Year 2 – 10	-	Decreasing to 3.71%
Year 11 – 18	-	Decreasing to 3.08%
Year 19 onwards	-	3.00%

Taxation
It is assumed that current tax legislation and rates continue unaltered.

Provisions for adverse deviations
The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The actuary uses assumptions which are considered conservative, taking into account the risk profiles of the policies written.

Sensitivity analysis
The following table represents the sensitivity of the value of the policyholders' liabilities under life insurance contracts disclosed in this note to certain movements in the valuation assumptions used.

	Change in Variable	**Change in Liability**	
		2020	**2019**
	%	**$'000**	**$'000**
Lowering of investment returns	1	-	2,637,755
Increase in investment returns	1	-	(2,223,452)
Worsening of base renewal expense levels	5/10	-	88,796
Improvement in base renewal expense levels	10	-	-
Worsening of mortality	10	-	205,001
Improvement in mortality	10	-	(212,893)
Worsening of lapse and surrender rates	10	-	745,472
Improvement in lapse and surrender rates	10	-	(840,576)

33. Liabilities under Annuity and Insurance Contracts (Continued)

The movement in and composition of claims outstanding are as follows:

	The Group		
	2019		
	Gross	Reinsurance	Net
	$'000	$'000	$'000
Notified claims	2,071,886	(8,526)	2,063,360
Claims incurred but not reported	2,011,466	(2,129)	2,009,337
Balance at beginning of year	4,083,352	(10,655)	4,072,697
Claims incurred	3,190,154	(166,853)	3,023,301
Claims paid	(3,574,963)	42,963	(3,532,000)
Disposal of subsidiary	(3,698,543)	134,545	(3,563,998)
Balance at end of year	-	-	-

The policy and claims liabilities were determined in accordance with accepted actuarial principles and as directed by the Financial Services Commission.

In determining the valuation, the actuary employed the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. In using the Paid/Incurred Loss Development method, ultimate losses are estimated by calculating past paid/incurred loss development factors and applying them to exposure periods with further expected paid/incurred loss development. The Bornhuetter-Ferguson Paid/Incurred Loss method is a combination of the Paid/Incurred Loss Development methods and a loss ratio method; however, these expected losses are modified to the extent paid/incurred losses to date differ from what would have been expected based on the selected paid/incurred loss development pattern. Finally, the Frequency-Severity method is calculated by multiplying an estimate of ultimate claims with an estimate of the ultimate severity per reported claim.

The movement in and composition of unearned premiums are as follows:

	The Group		
	2019		
	Gross	Reinsurance	Net
	$'000	$'000	$'000
Balance at beginning of year	2,724,427	(399,328)	2,325,099
Premiums written	5,986,969	(1,490,772)	4,496,197
Premiums earned	(5,728,276)	991,689	(4,736,587)
Disposal of subsidiary	(2,983,120)	898,411	(2,084,709)
Balance at end of year	-	-	-

34. Post-employment Benefits

Liabilities recognised in the statement of financial position are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Other post-employment benefits	6,245,904	5,601,389	6,245,904	5,601,389

The amounts recognised in the income statement are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Pension schemes (Note 10)	-	57,547	-	-
Other post-employment benefits (Note 10)	526,419	765,345	526,419	736,403
	526,419	822,892	526,419	736,403

The amounts recognised in the statement of comprehensive income are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Pension schemes	-	(79,246)	-	-
Other post-employment benefits	(118,096)	(239,711)	(118,096)	(241,708)
	(118,096)	(318,957)	(118,096)	(214,708)

34. Post-employment Benefits (Continued)

(a) Pension schemes

The Bank and its subsidiaries have established the following pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds. The Group's pension schemes are regulated by the respective regulator.

National Commercial Bank Staff Pension Fund 1986

This is a defined benefit scheme, which comprises the following pension funds which were merged on September 30, 1999:

- National Commercial Bank Staff Pension Fund 1975 (NCB 1975 Fund)
- National Commercial Bank Staff Pension Fund 1986 (NCB 1986 Fund)
- Mutual Security Bank Superannuation Scheme (MSB Fund)
- Computer Service and Programming Limited Pension Fund (CSP Fund).

Members' rights under each of the funds as at the date of merger were fully preserved in the NCB 1986 Fund and members of the merged funds receive pension benefits from the NCB 1986 Fund in respect of service up to the date of merger. The scheme was closed to new members effective October 1, 1999.

No asset has been recognised in relation to the Bank's defined benefit scheme as, under the rules of the scheme, the employer would not benefit from any surplus on the winding up of the scheme. No additional current service cost has been incurred since closure of the scheme and the employer only makes a nominal contribution.

National Commercial Bank Staff Pension Fund 1999

This is a defined contribution scheme which is funded by payments from employees and by the relevant companies. Group companies contribute an amount equivalent to 5% of employees' salary to the scheme each pay cycle and employees must contribute at least 5% and up to a maximum of 15%. Contribution to the scheme for the year was $438,765,000 (2019 – $452,137,000).

The amounts recognised in the statement of financial position in respect of defined benefit pension schemes are as follows:

	The Bank	
	2020	**2019**
	$'000	**$'000**
Present value of funded obligations	31,243,758	32,911,272
Fair value of plan assets	(33,706,365)	(41,291,898)
Over – funded obligations	(2,462,607)	(8,380,626)
Limitation on pension assets	2,462,607	8,380,626
	-	-

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)
The schemes are valued by actuaries annually using the projected unit credit method; the latest such valuation being carried out as at September 30, 2020 for the Bank's scheme.

The movement in the defined benefit obligation is as follows:

	2020	2019	
	The Bank	**The Bank**	**AGIC**
	$'000	**$'000**	**$'000**
At beginning of year	32,911,272	27,481,763	1,195,080
Employee's contributions	-	-	40,778
Service cost	-	-	46,020
Interest cost	2,075,679	1,999,509	89,485
Remeasurements:			
Experience losses/(gains)	128,954	2,791,549	(48,768)
Losses from changes in financial assumptions	(1,916,652)	1,831,742	106,228
Demographic assumptions	-	449,990	(69,156)
Benefits paid	(1,955,495)	(1,643,281)	(41,941)
Disposal of subsidiary	-	-	(1,317,726)
At end of year	31,243,758	32,911,272	-

The movement in the fair value of plan assets is as follows:

	2020	2019	
	The Bank	**The Bank**	**AGIC**
	$'000	**$'000**	**$'000**
At beginning of year	41,291,898	32,837,947	1,148,632
Interest on plan assets	2,620,420	2,401,223	87,032
Remeasurement - return on plan assets, excluding amounts included in interest on plan assets	(8,250,458)	7,696,009	151,355
Contributions	-	-	77,229
Administration fees	-	-	(9,073)
Benefits paid	(1,955,495)	(1,643,281)	(41,941)
Disposal of subsidiary	-	-	(1,413,234)
At end of year	33,706,365	41,291,898	-

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The amounts recognised in the income statement are as follows:

	2020	2019	
	The Bank	The Bank	AGIC
	$'000	$'000	$'000
Current service cost	-	-	46,020
Administration fees	-	-	9,073
Net interest expense	-	-	2,454
Total, included in staff costs	-	-	57,547

The amounts recognised in other comprehensive income are as follows:

	2020	2019	
	The Bank	The Bank	AGIC
	$'000	$'000	$'000
(Gain)/loss on present value of funded obligations	(1,787,698)	5,073,281	(11,696)
Loss/(gain) on fair value of plan assets	8,250,458	(7,696,009)	(151,356)
Change in effect of asset ceiling	(6,462,760)	2,622,728	-
Net gain	-	-	(163,052)

Plan assets for the Bank's defined benefit pension scheme are comprised as follows:

	2020		2019	
	$'000	%	$'000	%
Equity securities	19,188,075	56.93	25,973,657	62.90
Debt securities	11,415,498	33.87	12,532,930	30.35
Real estate and other	3,102,792	9.20	2,785,311	6.75
	33,706,365	100.00	41,291,898	100.00

These plan assets included:

- Ordinary stock units of NCB Financial Group Limited with a fair value of $9,851,894,000 (2019 – $13,859,766,000).
- Repurchase obligations, promissory notes and lease obligations of the Group aggregating $455,000,000 (2019 – $489,149,000).
- Properties occupied by the Group with a fair value of $639,750,000 (2019 - $695,800,000).

(expressed in Jamaican dollars unless otherwise indicated)

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Expected contributions to the Bank's defined benefit pension schemes for the year ending September 30, 2021 is nominal.

The principal actuarial assumptions used are as follows:

	2020	2019	
	The Bank	**The Bank**	**AGIC**
Discount rate	9.00%	6.50%	6.50%
Future salary increases	6.00%	5.00%	5.00%
Future pension increases	5.00%	3.00%	-

Post-employment mortality for active members and mortality for pensioners is based on the 1994 Group Annuity Mortality tables (GAM (94) (U.S. mortality tables) with no age setback.

The average duration of the defined benefit pension obligation at September 30, 2020 is 11.1 years (2019 – 11.7 years) for the Bank's defined benefit scheme.

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The sensitivity of the defined benefit pension obligation to changes in the principal assumptions is as follows:

The Bank

	Increase/(decrease) in defined benefit obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	(3,022,859)	3,622,439
Future salary increases	1%	84,490	(81,263)
Future pension increases	1%	3,428,820	(2,916,323)
Life expectancy	1 year	923,000	(970,000)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

34. Post-employment Benefits (Continued)

(b) Other post-employment benefits

In addition to pension benefits, the Group offers medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 2.0 percentage points above CPI per year (2019 – 2.0 percentage points above CPI).

The average duration of the other post-employment benefits obligation at September 30, 2020 is 19 years for the Bank.

The amounts recognised in the statement of financial position are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Present value of unfunded obligations	6,245,904	5,601,389	6,245,904	5,601,389

The movement in the defined benefit obligation is as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
At beginning of the year	5,601,389	5,456,525	5,601,389	5,188,004
Service cost	146,229	358,831	146,229	349,958
Interest cost	393,888	406,514	393,888	386,446
Curtailment	84,190	-	84,190	-
Remeasurements:				
Experience gains	(157,644)	(20,989)	(157,644)	(22,753)
Demographic assumptions	837,546	(142,100)	837,546	(146,622)
Gains from changes in financial assumptions	(561,807)	(76,622)	(561,807)	(72,333)
Benefits paid	(97,887)	(84,035)	(97,887)	(81,311)
Disposal of subsidiary	-	(296,735)	-	-
At end of year	6,245,904	5,601,389	6,245,904	5,601,389

The amounts recognised in the income statement are as follows:

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Service cost	132,531	358,831	132,531	349,957
Net interest expense	393,888	406,514	393,888	386,446
Total, included in staff costs (Note 10)	526,419	765,345	526,419	736,403

34. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

The sensitivity of the other post-employment benefit obligation to changes in the principal assumptions is as follows:

The Bank	**Increase/(decrease) in obligation**		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
		$'000	**$'000**
Discount rate	1%	(964,587)	1,252,714
Medical cost inflation	1%	1,248,952	(977,524)
Life expectancy	1 year	191,690	(191,690)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(c) Risks associated with pension plans and post-employment schemes

Through its defined benefit pension and other post-employment benefit schemes, the Group is exposed to a number of risks, the most significant of which are detailed below. The Group does not use derivatives to manage its plan risk. Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

Asset volatility risk
The schemes' liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields; if the schemes' assets underperform this yield, this will create a deficit.

Interest rate risk
The schemes' liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields. A decrease in Government of Jamaica bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' fixed-rate bond holdings, in instances where schemes are funded.

Salary risk
The present values of the defined benefit schemes' liabilities are calculated by reference to the future salaries of participants. As such, an increase in the salaries of participants will increase the schemes' liabilities.

Longevity risk
The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the schemes' liabilities.

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

35. Other Liabilities

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Accrued staff benefits	2,330,620	4,610,284	1,782,163	3,962,075
Due to customers, merchants and clients	17,952,841	14,148,367	4,351,184	5,258,273
Accrued other operating expenses	6,865,126	4,471,678	2,878,287	2,309,051
Due to Government of Jamaica	-	302,114	-	345,958
Management fees	875,000	2,806,533	1,037,209	2,806,533
Other	1,050,877	800,510	875,000	792,559
	29,074,464	27,139,486	10,923,843	15,474,449

36. Share Capital

	The Group	
	2020	**2019**
	$'000	**$'000**
Authorised - unlimited		
Issued and fully paid up –		
2,466,762,828 ordinary stock units of no par value	6,465,731	6,465,731
Issued and outstanding	6,465,731	6,465,731

37. Fair Value and Capital Reserves

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Fair value reserve	(809,368)	5,911,131	(1,359,425)	1,871,706
Capital reserve	5,898,913	5,003,136	374,471	374,471
	5,089,545	10,914,267	(984,954)	2,246,177
Capital reserve comprises:				
Realised –				
Capital gains from the Scheme of Arrangement	-	-	300,564	300,564
Surplus on revaluation of property, plant and equipment	92,991	92,991	-	-
Retained earnings capitalised	98,167	98,167	-	-
Share redemption reserve	1,077,382	1,077,382	-	-
Unrealised –				
Translation reserve	3,697,691	3,202,840	-	-
Surplus on revaluation of property, plant and equipment	142,963	142,963	73,907	73,907
Other	789,719	388,793	-	-
	5,898,913	5,003,136	374,471	374,471

38. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 19).

39. Banking Reserve Fund

This fund is maintained in accordance with the Banking Services Act, 2014, enacted in Jamaica, which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. The amount of the fund has surpassed the paid-up capital of the Bank and therefore no further mandatory transfers were required.

The Financial Institutions Act, 2008, enacted in Trinidad and Tobago, which is applicable for the Group's regulated subsidiary in that country, requires that a minimum of 10% of the profit for the year in each period be transferred to a statutory reserve account until the balance on this reserve is not less than the paid-up capital.

40. Retained Earnings Reserve

The Banking Services Act, 2014 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base and regulatory capital of the Bank.

41. Cash Flows from Operating Activities

	Note	The Group		The Bank	
		2020	2019	2020	2019
		$'000	$'000	$'000	$'000
Net profit		15,024,335	25,297,608	7,143,738	24,730,237
Adjustments to reconcile net profit to net cash flow provided by operating activities:					
Depreciation	26	1,571,192	1,864,194	1,554,918	1,753,919
Amortisation of intangible assets	25	2,835,236	1,925,514	2,595,526	1,658,609
Gain on disposal of insurance portfolio		(112,917)	-	-	-
Gain on disposal of subsidiary		-	(2,626,425)	-	-
Gain on disposal of associate	22	-	(3,291,544)	-	(7,107,970)
Share of after tax profits of associates	22	(1,507)	(10,089)	-	-
Credit impairment losses	12	7,626,766	3,306,476	-	3,288,510
Interest income	5	(54,905,671)	(53,495,621)	-	(41,520,202)
Interest expense	5	14,866,538	14,605,914	(42,502,156)	9,473,046
Income tax expense	14	366,382	5,740,079	8,810,025	2,604,772
Unrealised exchange gains on securitisation arrangements		(42,883)	(1,940,791)	(42,883)	(1,940,791)
Amortisation of upfront fees on securitisation arrangements		(405,327)	157,227	(405,327)	157,227
Unrealised exchange losses on other borrowed		254,871	68,474	144,512	152,983
funds Change in post-employment benefit	34	207,458	1,067,251	344,898	1,067,251
obligations Foreign exchange gains	7	(2,876,294)	(3,659,174)	(2,294,315)	(3,591,274)
Gain on disposal of property, plant and equipment and intangible assets		(81,526)	(66,708)	(81,526)	(82,038)
Fair value gains on investment property		(205,064)	-	-	-
Fair value losses on derivative financial instruments	7	(287,758)	(25,673)	(287,758)	(25,673)
Changes in operating assets and liabilities:					
Statutory reserves at Central Bank		2,485,054	6,634,028	2,281,463	6,505,920
Pledged assets included in due from other banks		1,864,574	(1,207)	1,698,417	49,192
Restricted cash included in due from other banks		(175,717)	174,299	(175,717)	171,375
Reverse repurchase agreements		330,885	2,836,510	-	191
Loans and advances		(31,298,607)	(40,221,120)	(23,163,340)	(37,204,661)
Customer deposits		66,746,413	15,260,869	59,321,225	17,365,311
Repurchase agreements		36,880,997	22,592,223	3,374,486	18,607,736
Liabilities under annuity and insurance contracts		1,545,434	(2,634,648)		-
Other		235,977	6,890,183	(7,694,398)	4,314,171
		47,424,506	(24,849,759)	3,478,050	(24,302,396)
Interest received		51,130,071	52,268,271	(147,918)	41,975,045
Interest paid		(15,177,114)	(14,462,512)	42,917,968	(9,923,604)
Income tax paid		(6,386,211)	(6,737,184)	(12,623,865)	(1,378,950)
		76,991,252	6,218,816	33,624,235	6,370,095
Net cash provided by operating activities		92,015,587	31,516,424	40,767,973	31,100,332

42. Related Party Transactions and Balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	The Group							
	Parent and companies controlled by major shareholder		Associated companies of the Group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Loans and advances								
Balance at September 30	2,635,158	2,579,095	-	-	500,443	434,301	1,061,829	26,049
Interest income earned	152,258	76,577	-	-	34,138	27,199	874	5,889
Investment securities								
Balance at September 30	33,981,302	27,900,018	-	-	-	-	-	-
Interest income earned	1,672,715	1,717,806	-	-	-	-	-	-
Reverse repurchase agreements								
Balance at September 30	-	-	-	-	-	-	-	-
Interest income earned	-	-	-	36,364	-	-	-	-
Other assets								
Balance at September 30	218,616	8,362	-	-	-	-	149,736	261,040
Fee and commission income	42,462	144,987	116	1,978	10,082	73,963	14,258	19,208
Other operating income	-	-	-	-	283	270	897,132	1,010,558
Dividend income	-	-	-	68,518	-	-	11,529	17,791

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

42. Related Party Transactions and Balances (Continued)

	The Group (Continued)							
	Parent and companies controlled by major shareholder		Associated companies of the Group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Customer deposits								
Balance at September 30	3,718,016	4,141,104	136,341	305,033	2,439,241	1,038,463	1,984,310	1,149,201
Interest expense	7,881	172,490	68	2,250	4,019	1,650	2,257	934
Repurchase agreements								
Balance at September 30	705,706	514,258	-	-	595,838	717,991	471,048	1,017,497
Interest expense	19,641	10,267	-	125,630	7,659	8,983	14,603	23,828
Other borrowed funds								
Balance at September 30	7,114,685	7,117,178	-	-	-	-	-	-
Interest expense	456,247	455,000	-	-	-	-	-	-
Other liabilities								
Balance at September 30	1,164,862	2,994,435	-	-	90,315	99,802	-	-
Operating expenses	3,701,063	6,869,355	-	5,592	8,658	6,294	1,240,656	1,041,769

42. Related Party Transactions and Balances (Continued)

	The Bank							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the Group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2020	2019	2020	2019	2020	2019	2020	2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Loans and advances								
Balance at September 30	2,635,158	2,579,095	-	411,345	466,682	402,217	1,061,829	26,049
Interest income earned	152,258	76,577	-	51,235	32,598	25,819	874	5,889
Reverse repurchase agreements								
Balance at September 30	400,000	223,923	-	-	-	-	-	-
Interest income earned	8,026	37,425	-	5,778	-	-	-	-
Other assets								
Balance at September 30	1,699,504	1,193,691	-	-	-	-	-	-
Fee and commission income	29,503	136,954	116	11,247	85	252	14,139	8,586
Dividend income	3,184,607	11,310,832	-	201,525	-	-	11,529	17,791
Other operating income	1,514,667	2,977,659	-	-	-	-	-	-

42. Related Party Transactions and Balances (Continued)

	The Bank (Continued)							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the Group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Customer deposits								
Balance at September 30	22,310,308	9,949,682	136,341	305,033	2,439,241	1,038,463	1,984,310	1,145,989
Interest expense	15,560	412,251	68	2,250	4,019	1,650	2,257	933
Repurchase agreements								
Balance at September 30	6,626,957	15,310,386	-	-	-	-	-	-
Interest expense	75,930	117,106	-	125,630	-	-	-	-
Due to other banks								
Balance at September 30	15,374,558	3,420,737	-	-	-	-	- -	-
Interest expense	372,228	230,944	-	-	-	-	- -	-
Other borrowed funds								
Balance at September 30	7,114,685	7,117,178	-	-	-	-	-	-
Interest expense	456,247	455,000	-	-	-	-	-	-
Other liabilities								
Balance at September 30	1,380,821	537,164	-	-	-	-	-	-
Operating Expenses	3,786,312	4,668,286	-	5,592	5,939	6,294	1,240,656	1,041,769

42. Related Party Transactions and Balances (Continued)

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Key management compensation:				
Salaries and other short-term benefits	971,013	1,063,657	815,625	781,985
Post-employment benefits	16,932	48,654	14,804	40,966
	987,945	1,112,311	830,429	822,951
Directors’ emoluments:				
Fees	12,851	12,416	6,669	7,557
Management remuneration	151,315	25,152	151,315	25,152

43. Financial Risk Management

The Group takes an enterprise-wide approach to the identification, measurement, monitoring, reporting and management of all its risks. The principal financial risks faced by the organisation are identified as: credit, market, interest rate and liquidity.

The Group's risk management framework guides its risk-taking activity and ensures that it is in conformity with regulatory requirements, applicable laws, the Board's risk appetite, stockholders’ expectations and standards of best practice. The framework incorporates a comprehensive risk governance structure and appropriate policies and procedures.

Risk Governance Structure
The Group's risk governance structure seeks to manage risk/reward by ensuring that revenue-generation activities are compliant with the Group's standards and risk tolerance, while maximising long term shareholder value. The Group's comprehensive risk governance structure incorporates: (a) oversight effected through the Board, Board committees and relevant management committees, (b) administrative controls effected through the establishment of policies, and (c) organisational controls effected through segregation of duties. These controls are reviewed on an ongoing basis to ensure that they provide effective governance of the Group's risk-taking activities.

43. Financial Risk Management (Continued)

Risk limits and benchmarks are integral to the risk management process, as they characterise the Board's risk tolerance and also that of the Regulator. Limits are established for:

(i) Credit and Counterparty risk - exposures to individuals, group, counterparty, country;
(ii) Market risk - rate gap exposure, currency exposure, market value exposure; and
(iii) Liquidity risk - liquidity gaps, funding exposures/liability diversification and liquid assets levels.

Limits and benchmarks are monitored on an ongoing basis and reported to the relevant governance committees.

Policies & Procedures

Rigorous policies and operational procedures are established throughout the organisation and are approved by the relevant management personnel and/or governance committees.

These policies and procedures incorporate requirements for compliance monitoring, maintenance of contingency plans and the provision of reports to management and the relevant governance committees and/or the Board of Directors.

Covid-19

The coronavirus pandemic (COVID-19) caused a contraction in all the economies in which the Group operates. The spread of the virus and stringent exit and entry protocols weighed on global travel and limited tourism demand. In addition, the downturn in global demand has also resulted in depressed oil and gas prices. The confluence of factors would have impacted to varying degrees, government revenue for the major territories.

Our monitoring mechanisms were ramped up maintaining close surveillance of the health crisis, the economic impact on our major trading partners and the contagion effects.

Our investment portfolios were impacted by the widening of credit spreads and foreign exchange changes which resulted in significant fall-off in asset prices.

Our Income would have been negatively impacted by waiver or reduction of fees associated with certain loan facilities and reduction in loan volumes due to contraction in economic activity.

(a) Credit risk

This is defined as potential for loss to the organisation arising from failure of a borrower, guarantor or counterparty to honour their contractual obligations to the Group.

The Group incurs credit and counterparty risk primarily in its loan business, reverse repurchase arrangements, and certain investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. Credit risk management is facilitated by a cadre of loans officers and credit risk personnel, who together operate within a control framework which employs a hierarchical level of authorisations for transactions that expose the organisation to credit risk. Operating practices include the establishment of limits, ongoing monitoring of credit risk exposures, a disciplined approach to provisioning and loan loss evaluation in addition to ongoing reporting of portfolio exposures to the relevant governance committees and the regulators.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

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. They expose the Group to risks similar to loans and these are mitigated by the same control policies and processes.

43. Financial Risk Management (Continued)

Credit review process
The Group has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

The Group employs the following classifications in assessing its exposures to its borrowing customers. The classifications are in line with the Central Bank regulations.

Standard
Special Mention
Sub-Standard
Doubtful
Loss

Exposure to credit risk is mitigated by the taking of financial or physical assets.

Collateral and other credit enhancements
The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

(i) Loans - mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities.

(ii) Securities lending and reverse repurchase transactions – cash or securities.

The Group may also obtain guarantees from parent companies for loans to their subsidiaries.

Collateral values are monitored with a view to requesting additional collateral where market values are compromised or the terms in the loan agreements dictate.

	The Group			
	2020			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	9,595,233	(7,563,683)	2,031,551	6,868,593
Debt securities	833,641	(11,193)	822,448	-
Total credit-impaired assets	10,428,874	(7,574,876)	2,853,999	6,868,593

	The Group			
	2019			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	6,878,023	(4,989,538)	1,888,485	12,127,043
Debt securities	517,721	(363,215)	154,506	-
Total credit-impaired assets	7,395,744	(5,352,753)	2,042,991	12,127,043

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

	The Bank 2020			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	9,595,233	(7,563,683)	2,031,551	6,868,593
Total credit-impaired assets	9,595,233	(7,563,683)	2,031,551	6,868,593

	The Bank 2019			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	6,852,326	(4,989,538)	1,862,788	12,127,043
Total credit-impaired assets	6,852,326	(4,989,538)	1,862,788	12,127,043

Impairment loss provision methodology
Provisions for impairment losses are assessed under three categories as described below:

Sub-standard, Doubtful or Loss rated loans
The Group identifies sub-standard, doubtful or loss rated loans as determined by Bank of Jamaica Regulations. The calculated provision is adjusted by the future cash flow from the realisation of the related collateral.

Individually Significant, Standard and Special Mention loans
Individually significant loans are reviewed to determine whether the loans show objective evidence of impairment and to determine the extent of provision required. Impairment may be determined through assessment of a number of factors, which include:
(i) Any significant financial difficulty being experienced by the borrower.
(ii) Breach of contract, such as default term, delinquency in principal and interest.
(iii) High probability of bankruptcy or other financial reorganisation by the borrower.

Collectively assessed provisions
All loans, excluding those that are impaired, are assessed on a portfolio basis where possible, in order to reflect the homogenous nature of the loans. The provision is determined by a quantitative review of the respective portfolios.

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

The tables below show the loans and the associated impairment provision for each internal rating class:

	The Group			
	2020		2019	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	328,445,060	5,746,673	299,397,716	1,545,545
Special Mention	10,482,066	110,923	8,731,231	69,883
Sub-Standard	1,186,653	793,381	3,782,151	970,386
Doubtful	1,775,613	1,194,200	1,681,915	1,269,576
Loss	6,867,075	5,193,961	5,106,650	2,798,785
	348,756,467	13,039,138	318,699,663	6,654,175

	The Bank			
	2020		2019	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	320,322,788	5,717,471	290,550,429	1,523,644
Special Mention	9,428,279	100,385	8,731,231	69,883
Sub-Standard	974,359	787,983	3,779,918	969,827
Doubtful	1,775,613	1,194,200	1,681,915	1,269,576
Loss	6,842,310	5,175,992	5,083,186	2,789,770
	339,343,349	12,976,031	309,826,679	6,622,700

National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(a) Credit risk (continued)
The credit quality of loans is summarised as follows:

	The Group		The Bank	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Unimpaired	337,870,389	311,821,640	329,748,117	302,974,353
Impaired	10,886,078	6,878,023	9,595,232	6,852,326
Gross	348,756,467	318,699,663	339,343,349	309,826,679
Less: provision for credit losses	(13,039,138)	(6,654,175)	(12,976,031)	(6,622,700)
Net	335,717,329	312,045,488	326,367,318	303,203,979

The ageing analysis of past due but not impaired loans is as follows:

	The Group		The Bank	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
Less than 30 days	75,768,216	81,841,717	67,931,904	78,576,232
31 to 60 days	13,916,185	6,465,217	13,834,106	6,422,441
61 to 90 days	8,297,267	3,729,350	8,272,975	3,721,050
Greater than 90 days	1,100,341	1,068,375	21,791	1,057,893
	99,082,009	93,104,659	90,060,776	89,777,616

Of the aggregate amount of gross past due but not impaired loans, $13,227,655,000 was secured as at September 30, 2020 (2019 – $62,753,969,000).

Restructured loans
Restructuring activities include extended payment arrangements, approved external management plans, and 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 continuous review. Restructuring is most commonly applied to term loans.

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Restructured loans (continued)

The determination of whether a loan would qualify for renegotiation is made only if all factors indicate that the borrower is able to repay in full (including interest). In making this assessment, the Group takes into consideration the historic experience with the borrowers, their expected future cash flows, collateral valuations and any guarantees. Therefore, at the time of modification, all renegotiated loans are interest bearing with interest being calculated using the terms of the modified loan.

All renegotiated loans are individually assessed for impairment as the active renegotiation of a loan as a result of borrower difficulty, is considered a trigger for determining whether the loan should be tested for impairment. In carrying out its assessment, the Group uses the same methodology as with any other loan in the portfolio that exhibits other objective evidence of impairment. These loans are, however, actively monitored for at least 12 months from the time of renegotiation to determine whether circumstances have changed that would result in the loan being impaired or whether there should be an increase in the current level of impairment.

Credit risk exposure

The table below represents a worst case scenario of credit risk exposure of the Group and the Bank at the date of the statement of financial position, without taking account of any collateral held or other credit enhancements. For on-statement of financial position assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

	The Group		The Bank	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Credit risk exposures relating to on-statement of financial position assets:				
Balances with Central Banks	53,546,051	46,953,461	51,063,567	46,004,030
Due from other banks	84,559,680	62,301,265	71,283,353	50,841,639
Derivative financial instruments	287,758	239,279	287,758	-
Reverse repurchase agreements	6,236,267	2,925,572	966,175	223,923
Loans and advances, net of provision for credit losses	337,115,549	312,914,928	327,679,554	304,012,102
Investment securities	380,740,100	366,789,727	186,979,891	162,862,597
Letters of credit and undertaking	3,618,540	2,051,519	3,618,540	2,051,519
Other assets	10,107,186	7,910,701	8,787,497	6,094,081
	876,211,131	802,086,452	650,666,335	572,089,891
Credit risk exposures relating to off-statement of financial position items:				
Credit commitments	61,979,004	58,769,156	61,979,004	58,769,156
Acceptances, guarantees and indemnities	11,175,703	8,673,177	9,439,355	6,765,956
	73,154,707	67,442,333	71,418,359	65,535,112

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposures

(i) Loans

The majority of loans are made to customers in Jamaica. The following table summarises the credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Agriculture	9,205,419	8,761,071	9,205,419	8,761,071
Public Sector	5,116,576	4,849,076	2,293,715	3,508,502
Construction and land development	13,695,057	19,021,235	11,937,251	18,620,713
Other financial institutions	2,883,566	313,728	2,866,693	287,338
Distribution	43,583,207	43,321,584	41,601,381	41,446,608
Electricity, water & gas	11,962,963	12,971,352	11,467,736	12,367,927
Entertainment	1,117,331	1,342,061	1,117,331	1,342,061
Manufacturing	8,105,729	7,036,936	8,047,331	6,680,082
Mining and processing	173,704	4,585,903	158,399	4,585,903
Personal	156,834,674	153,975,667	156,421,446	151,366,135
Professional and other services	23,336,087	16,282,525	22,636,778	15,666,045
Tourism	39,427,114	36,725,583	38,308,170	35,718,051
Transportation storage and communication	1,588,167	7,101,372	1,554,828	7,064,673
Overseas residents	31,726,873	2,411,570	31,726,871	2,411,570
Total	348,756,467	318,699,663	339,343,349	309,826,679
Expected credit losses	(13,039,138)	(6,654,175)	(12,976,031)	(6,622,700)
	335,717,329	312,045,488	326,367,318	303,203,979
Interest receivable	1,398,220	869,440	1,312,235	808,123
Net	337,115,549	312,914,928	327,679,553	304,012,102

(ii) Debt securities

The following table summarises the credit exposure for debt securities at their carrying amounts, as categorised by issuer:

	The Group		The Bank	
	2020	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**
Government of Jamaica and Bank of Jamaica	261,793,636	238,262,293	166,043,111	142,240,088
Corporate bonds	91,519,292	107,531,722	11,947,171	13,842,266
Foreign governments	23,293,949	17,412,649	6,838,757	5,019,307
	376,606,877	363,206,664	184,829,039	161,101,661
Interest receivable	4,174,481	3,819,786	2,191,954	1,799,962
ECL	(41,258)	(236,723)	(41,102)	(39,026)
	380,740,100	366,789,727	186,979,891	162,862,597

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	The Group 2020 ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	76,984,962	-	-	-	76,984,962
Medium	287,594,163	554,155	-	833,641	288,981,959
High	3,342,129	-	-	-	3,342,129
Default	-	-	-	-	-
Gross carrying amount	367,921,254	554,155	-	833,641	369,309,050
Loss allowance amortised cost	(41,258)	-	-	-	(41,258)
	367,879,996	554,155	-	833,641	369,267,792

	The Group 2019 ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	70,397,540	-	-	-	70,397,540
Medium	282,481,040	205,540	-	-	282,686,580
High	3,596,739	-	-	-	3,596,739
Default	-	-	517,721	-	517,721
Gross carrying amount	356,475,319	205,540	517,721	-	357,198,580
Loss allowance amortised cost	(236,723)	-	-	-	(236,723)
	356,238,596	205,540	517,721	-	356,961,857

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

	The Group				
	ECL staging				
	2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	131,673,437	82,205,376	-	-	213,878,813
Medium	76,736,477	43,881,773	-	-	120,618,250
High	1,464,410	1,908,917	-	-	3,373,327
Default	-	-	10,886,077	-	10,886,077
Gross carrying amount	209,874,324	127,996,066	10,886,077	-	348,756,467
Loss allowance	(1,491,991)	(3,949,559)	(7,597,588)	-	(13,039,138)
Carrying amount	208,382,333	124,046,507	3,288,489	-	335,717,329

	The Group				
	ECL staging				
	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	195,280,550	3,884,517	-	-	199,165,067
Medium	107,108,091	3,110,966	-	-	110,219,057
High	1,341,283	78,587	-	-	1,419,870
Default	-	-	7,895,669	-	7,895,669
Gross carrying amount	303,729,924	7,074,070	7,895,669	-	318,699,663
Loss allowance	(1,413,779)	(250,858)	(4,989,538)	-	(6,654,175)
Carrying amount	302,316,145	6,823,212	2,906,131	-	312,045,488

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	94,687,480	-	-	-	94,687,480
Gross carrying amount	94,687,480	-	-	-	94,687,480
Loss allowance	(204)	-	-	-	(204)
Carrying amount	94,687,276	-	-	-	94,687,276

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	70,221,886	-	-	-	70,221,886
Gross carrying amount	70,221,886	-	-	-	70,221,886
Loss allowance	(216)	-	-	-	(216)
Carrying amount	70,221,670	-	-	-	70,221,670

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	11,615,916	-	-	-	11,615,916
Medium	174,788,136	315,342	-	-	175,103,478
Gross carrying amount	186,404,052	315,342	-	-	186,719,394
Loss allowance amortised cost	(40,792)	-	-	-	(40,792)
	186,363,260	315,342	-	-	186,678,602

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	11,530,173	-	-	-	11,530,173
Medium	151,059,814	-	-	-	151,059,814
Gross carrying amount	162,589,987	-	-	-	162,589,987
Loss allowance amortised cost	(39,025)	-	-	-	(39,025)
	162,550,962	-	-	-	162,550,962

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

	The Bank				
	ECL staging				
	2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	$000	$000	$000	$000	$000
Risk rating					
Low	123,636,437	82,120,103	-	-	205,756,540
Medium	76,736,477	43,881,773	-	-	120,618,250
High	1,464,410	1,908,917	-	-	3,373,327
Default	-	-	9,595,233	-	9,595,233
Gross carrying amount	201,837,324	127,910,793	9,595,233	-	339,343,350
Loss allowance	(1,463,999)	(3,948,349)	(7,563,683)	-	(12,976,031)
Carrying amount	200,373,325	123,962,444	2,031,550	-	326,367,319

	The Bank				
	ECL staging				
	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	$000	$000	$000	$000	$000
Risk rating					
Low	187,530,505	3,884,517	-	-	191,415,022
Medium	106,009,758	3,110,966	-	-	109,120,724
High	1,341,283	78,587	-	-	1,419,870
Default	-	-	7,871,063	-	7,871,063
Gross carrying amount	294,881,546	7,074,070	7,871,063	-	309,826,679
Loss allowance	(1,406,212)	(250,858)	(4,965,630)	-	(6,622,700)
Carrying amount	293,475,334	6,823,212	2,905,433	-	303,203,979

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE and OTHER ASSETS	$000	$000	$000	$000	$000
Risk rating					
Low	80,070,842	-	-	-	80,070,842
Gross carrying amount	80,070,842	-	-	-	80,070,842
Loss allowance	(269)	-	-	-	(269)
Carrying amount	80,070,573	-	-	-	80,070,573

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE and OTHER ASSETS	$000	$000	$000	$000	$000
Risk rating					
Low	56,518,313	-	-	-	56,518,313
Gross carrying amount	56,518,313	-	-	-	56,518,313
Loss allowance	(214)	-	-	-	(214)
Carrying amount	56,518,099	-	-	-	56,518,099

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

The following tables contain an analysis of the expected credit losses:

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	34,411	-	-	-	34,411
Medium	1,387,534	62,076	-	-	1,449,610
High	590,354	-	-	-	590,354
Default	-	-	-	-	-
Loss allowance	2,012,299	62,076	-	-	2,074,375

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	30,434	-	-	-	30,434
Medium	1,111,636	1,649	-	-	1,113,285
High	582,674	-	-	-	582,674
Default	-	-	363,215	-	363,215
Loss allowance	1,724,744	1,649	363,215	-	2,089,608

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

Maximum exposure to credit risk (continued)

The following tables contain an analysis of the expected credit losses:

	The Group 2020 ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	856,917	2,169,452	5,398	-	3,031,767
Medium	603,937	1,738,203	-	-	2,342,140
High	31,137	41,904	-	-	73,041
Default	-	-	7,592,190	-	7,592,190
Loss allowance	1,491,991	3,949,559	7,597,588	-	13,039,138

	The Group 2019 ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	772,297	105,735	-	-	878,032
Medium	612,369	135,404	-	-	747,773
High	29,113	9,719	-	-	38,832
Default	-	-	4,989,538	-	4,989,538
Loss allowance	1,413,779	250,858	4,989,538	-	6,654,175

43. Financial Risk Management (Continued)

Maximum exposure to credit risk (continued)

The following tables contain an analysis of the expected credit losses:

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE AND OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	204	-	-	-	204
Loss allowance	204	-	-	-	204

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE AND OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	216	-	-	-	216
Loss allowance	216	-	-	-	216

43. Financial Risk Management (Continued)

Maximum exposure to credit risk (continued)

The following tables contain an analysis of the expected credit losses:

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	5,912	-	-	-	5,912
Medium	732,132	29,899	-	-	762,031
Loss allowance	738,044	29,899	-	-	767,943

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	4,240	-	-	-	4,240
Medium	520,527	-	-	-	520,527
Loss allowance	524,767	-	-	-	524,767

43. Financial Risk Management (Continued)

Maximum exposure to credit risk (continued)

The following tables contain an analysis of the expected credit losses:

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	828,925	2,168,242	-	-	2,997,167
Medium	603,937	1,738,203	-	-	2,342,140
High	31,137	41,904	-	-	73,041
Default	-	-	7,563,683	-	7,563,683
Loss allowance	1,463,999	3,948,349	7,563,683	-	12,976,031

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	764,758	105,735	-	-	870,493
Medium	612,341	135,404	-	-	747,745
High	29,113	9,719	-	-	38,832
Default	-	-	4,965,630	-	4,965,630
Loss allowance	1,406,212	250,858	4,965,630	-	6,622,700

43. Financial Risk Management (Continued)

Maximum exposure to credit risk (continued)

Loss allowance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2019	1,724,744	1,649	363,215	-	2,089,608
Transfers:					
Transfer from Stage 1 to Stage 2	(45,154)	45,154	-	-	-
New financial assets originated or purchased	1,001,268	16,346	-	-	1,017,614
Financial assets derecognised during the period	(564,370)	-	(363,215)	-	(927,585)
Foreign exchange movement	(104,189)	(1,073)	-	-	(105,262)
Loss allowance as at September 30, 2020	2,012,299	62,076	-	-	2,074,375

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	2,730,977	470	365,068	-	3,096,515
Transfers:					
Transfer from Stage 1 to Stage 2	(1,116)	1,116	-	-	-
New financial assets originated or purchased	530,041	-	-	-	530,041
Disposal of subsidiary	(29,725)	-	-	-	(29,725)
Financial assets derecognised during the period	(1,005,482)	-	-	-	(1,005,482)
Changes to inputs to the ECL Model	(422,126)	63	(1,507)	-	(423,570)
Foreign exchange movement	(77,825)	-	(346)	-	(78,171)
Loss allowance as at September 30, 2019	1,724,744	1,649	363,215	-	2,089,608

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2019	1,413,779	250,858	4,989,538	-	6,654,175
Transfers:					
Transfer from Stage 2 to Stage 1	650,497	(650,497)	-	-	-
Transfer from Stage 1 to Stage 3	(14,269)	-	14,269	-	-
Transfer from Stage 3 to Stage 2	-	(26,485)	26,485	-	-
Transfer from Stage 2 to Stage 1	32,659	(32,659)	-	-	-
Transfer from Stage 3 to Stage 1	6,626	-	(6,626)	-	-
Transfer from Stage 3 to Stage 2	-	8,556	(8,556)	-	-
New financial assets originated or purchased	1,100,854	550,538	514,314	-	2,165,706
Financial assets derecognised	(2,155,842)	1,125,689	(749,152)	-	(1,779,305)
Write offs	-	-	(2,373,997)	-	(2,373,997)
Changes to principal	411,795	(247,393)	2,797,889	-	2,962,291
Changes to input to ECL model	45,102	2,970,952	2,392,921	-	5,408,975
Foreign exchange changes	790	-	503	-	1,293
Loss allowance as at September 30, 2020	1,491,991	3,949,559	7,597,588	-	13,039,138

National Commercial Bank Jamaica Limited

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**
Loss allowance as at October 1, 2018	1,215,100	206,357	2,724,245	-	4,145,702
Transfers:					
Transfer from Stage 1 to Stage 2	(178,598)	178,598	-	-	-
Transfer from Stage 1 to Stage 3	(1,706,230)	-	1,706,230	-	-
Transfer from Stage 2 to Stage 1	13,155	(13,155)	-	-	-
Transfer from Stage 2 to Stage 3	-	(559,850)	559,850	-	-
Transfer from Stage 3 to Stage 1	46	-	(46)	-	-
Transfer from Stage 3 to Stage 2	-	693	(693)	-	-
New financial assets originated or purchased	2,078,043	438,215	-	-	2,516,258
Changes to principal	(7,737)	-	(48)	-	(7,785)
Loss allowance as at September 30, 2019	1,413,779	250,858	4,989,538	-	6,654,175

	The Group				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE ASSET and OTHER ASSETS	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**
Loss allowance as at October 1, 2019	216	-	-	-	216
Financial assets derecognised during the period	(12)	-	-	-	(12)
Loss allowance as at September 30, 2020	204	-	-	-	204

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Group				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE ASSET and OTHER ASSETS	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**
Loss allowance as at October 1, 2018	15,227	-	-	-	15,227
New financial assets originated on purchase	216	-	-	-	216
Financial assets derecognised during the period	(15,227)	-	-	-	(15,227)
Loss allowance as at September 30, 2019	216	-	-	-	216

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**\$000**	**\$000**	**\$000**	**\$000**	**\$000**
Loss allowance as at October 1, 2019	524,767	-	-	-	524,767
Transfers:					
Transfers from Stage 1 to Stage 2	(29,899)	29,899	-	-	-
New financial assets originated or purchased	388,415	-	-	-	388,415
Financial assets derecognised during the period	(99,334)	-	-	-	(99,334)
Foreign exchange movement	(45,905)	-	-	-	(45,905)
Loss allowance as at September 30, 2020	738,044	29,899	-	-	767,943

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	990,260	-	-	-	990,260
New financial assets originated or purchased	250,474	-	-	-	250,474
Financial assets derecognised during the period	(415,172)	-	-	-	(415,172)
Changes to ECL model	(221,269)	-	-	-	(221,269)
Foreign exchange movement	(79,526)	-	-	-	(79,526)
Loss allowance as at September 30, 2019	524,767	-	-	-	524,767

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2019	1,406,212	250,858	4,965,630	-	6,622,700
Transfers:					
Transfer from Stage 1 to Stage 2	650,497	(650,497)	-	-	-
Transfer from Stage 1 to Stage 3	(14,200)	-	14,200	-	-
Transfer from Stage 2 to Stage 3	-	(26,485)	26485	-	-
Transfer from Stage 2 to Stage 1	32,659	(32,659)	-	-	-
Transfer from Stage 3 to Stage 1	6,626	-	(6,626)	-	-
Transfer from Stage 3 to Stage 2	-	8,556	(8,556)	-	-
New financial assets originated or purchased	1,075,106	550,474	523,226	-	2,148,806
Financial asset derecognised	(2,147,513)	1,125,689	(748,565)	-	(1,770,389)
Write offs	-	-	(2,373,997)	-	(2,373,997)
Changes to principal	409,510	(248,539)	2,797,889	-	2,958,860
Changes to input to ECL model	45,102	2,970,952	2,373,997	-	5,390,051
Loss allowance as at September 30, 2020	1,463,999	3,948,349	7,563,683	-	12,976,031

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	1,203,183	206,357	2,715,710	-	4,125,250
Transfers:					
Transfer from Stage 1 to Stage 2	(178,598)	178,598	-	-	-
Transfer from Stage 1 to Stage 3	(1,706,258)	-	1,706,258	-	-
Transfer from Stage 2 to Stage 3	-	(544,401)	544,401	-	-
Transfer from Stage 2 to Stage 1	13,155	(13,155)	-	-	-
Transfer from Stage 3 to Stage 1	46	-	(46)	-	-
Transfer from Stage 3 to Stage 2	-	693	(693)	-	-
New financial assets originated or purchased	2,074,684	422,766	-	-	2,497,450
Loss allowance as at September 30, 2019	1,406,212	250,858	4,965,630	-	6,622,700

	The Bank				
	2020				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE ASSET and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2019	214	-	-	-	214
Transfers	-	-	-	-	-
New financial assets originated or purchased	55	-	-	-	55
Loss allowance as at September 30, 2020	269	-	-	-	269

43. **Financial Risk Management (Continued)**

(a) Credit risk (continued)

Loss allowance (continued)

	The Bank				
	2019				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE ASSET and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	9,967	-	-	-	9,967
Transfers	-	-	-	-	-
New financial assets originated or purchased	214	-	-	-	214
Financial assets derecognised during the period	(9,967)	-	-	-	(9,967)
Loss allowance as at September 30, 2019	214	-	-	-	214

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Economic variable assumptions for exposure – securities

Macroeconomic variables used in the Group's ECL models for securities include, but are not limited to, Global Gross Domestic Product growth, Global Consumer Price Index and interest rates. The impact of these economic variables has been determined by performing statistical analysis to understand that a correlation exists between certain variables. The PDs and LGDs are impacted by long-term changes in the various data sets gathered from external rating agencies (Standard & Poor, Moody's) and the International Monetary Fund. Macroeconomic variable assumptions in the expected credit loss models include Global Gross Domestic Product growth -3.70 (2019: 3.71) and Global Consumer Price Index 4.40 (2019: 3.29). **Economic variable assumptions for exposure – loans and advances**

For lending operations in Jamaica management has examined the information within the market and selected economic metrics that have a significant correlation to credit losses.

Expected state for the next 12 months		Jamaica
GDP growth	Base	Negative
	Upside	Positive
	Downside	Negative
Inflation	Base	Stable
	Upside	Stable
	Downside	Negative

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Sensitivity analysis

Set out below are the changes in ECL that would result from a reasonably possible change in the PDs and LGDs used by the Group:

	The Group 2020		
			Impact on ECL
Financial Assets	**Actual PD ranges applied**	**% Change in PD**	**Impact**
			$'000
Debt securities	0.003% - 40.2%	+/- 30%	688,379
Loans and advances	0% - 0.087%	+/- 30%	2,387,985
Repurchase agreements	0.0313% - 0.0449%	+/- 30%	576
Commitment, guarantees & LCs	0% - 0.087%	+/- 30%	15,326
Total			3,092,266

	The Group 2019		
			Impact on ECL
Financial Assets	**Actual PD ranges applied**	**% Change in PD**	**Impact**
			$'000
Debt securities	0.0145% - 30.8%	+/- 20%	547,444
Loans and advances	0% - 0.074%	+/- 20%	178,723
Repurchase agreements	0.002% - 0.018%	+/- 20%	169
Cash and cash equivalents	0.002% - 0.007%	+/- 20%	3,353
Total			729,689

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Sensitivity analysis (Continued)

Set out below are the changes in ECL that would result from a reasonably possible change in the PDs and LGDs used by the Group:

	The Bank		
	2020		
			Impact on ECL
Financial Assets	**Actual PD ranges applied**	**% Change in PD**	**Impact**
			$'000
Debt securities	0.003% - 40.2%	+/- 30%	244,154
Loans and advances	0% - 0.087%	+/- 30%	2,387,985
Repurchase agreements	0.0313% - 0.0449%	+/- 30%	8
Commitment, guarantees & LCs	0% - 0.087%	+/- 30%	15,326
Total			2,647,473

	The Bank		
	2019		
			Impact on ECL
Financial Assets	**Actual PD ranges applied**	**% Change in PD**	**Impact**
			$'000
Debt securities	0.0145% - 30.8%	+/- 20%	104,953
Loans and advances	0% - 0.074%	+/- 20%	174,455
Repurchase agreements	0.002% - 0.018%	+/- 20%	1
Cash and cash equivalents	0.002% - 0.007%	+/- 20%	43
Total			279,452

43. Financial Risk Management (Continued)

(b) Liquidity risk

The Group's liquidity risk policy is designed to ensure that it can meet cash obligations when they fall due and take advantage of unanticipated earnings enhancement opportunities.

Liquidity management within the Group, which incorporates funding risk management, ensures that there is a sufficient level of liquid assets available in addition to stable funding lines to meet ongoing cash commitments even during periods of stress. The management of liquidity risk is executed within a framework which comprises:

(i) Oversight by relevant governance committees;

(ii) Daily management of liquidity by the relevant treasury/investment units;

(iii) Use of tools to measure the Groups exposures;

(iv) Establishment and monitoring of limits/benchmarks for maturity mismatches and funding concentrations;

(v) Diversification of funding sources;

(vi) Maintenance of committed lines of credits; and

(vii) Monitoring of adherence to regulatory ratios.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are 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 of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group's liquidity exposure. It is unusual for companies to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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 Group and its exposure to changes in interest rates and exchange rates.

COVID-19 would have resulted in increased liability run-offs, albeit moderate. Our liquidity positioning was sufficient, thereby enabling the Group meet its contractual and regulatory obligations. It was also further bolstered by USD fund raising activities in the international markets.

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities

The tables below present the contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the financial assets (expected) and liabilities (contractual and expected) based on the remaining period.

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2020:						
Due to other banks	10,473,893	8,635,583	2,397,958	128,462	-	21,635,896
Customer deposits	366,602,994	16,858,874	19,427,807	2,491,854	-	405,381,529
Repurchase agreements	66,659,756	59,995,148	83,088,372	1,300,803	4,002,052	215,046,131
Obligations under securitisation arrangements	3,392,954	387,110	10,024,016	38,569,678	37,010,204	89,383,962
Other borrowed funds	3,635,951	1,345,930	5,133,497	8,070,981	13,458,656	31,645,015
Lease Liabilities	115,083	138,456	233,551	654,146	575,183	1,716,419
Other	26,832,339	-	-	-	-	26,832,339
Total financial liabilities (contractual maturity dates)	477,712,970	87,361,101	120,305,201	51,215,924	55,046,095	791,641,291
Total financial liabilities (expected maturity dates)	73,649,173	83,159,619	121,702,267	101,461,997	416,599,553	796,572,609
Total financial assets (expected maturity dates)	159,961,112	19,484,514	63,505,637	346,066,603	566,870,045	1,155,887,911

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2019:						
Due to other banks	9,702,241	3,427,839	5,824,335	-	-	18,954,415
Customer deposits	341,199,017	8,351,357	19,793,485	3,564,544	-	372,908,403
Repurchase agreements	75,136,421	41,242,132	25,566,555	44,217,404	-	186,162,512
Obligations under securitisation arrangements	2,230,244	1,213,217	10,891,642	33,184,758	8,107,276	55,627,137
Other borrowed funds	420,479	958,593	13,664,525	19,273,550	7,287,880	41,605,027
Liabilities under annuity and insurance contracts	29,228,209	164,407	1,257,065	6,134,868	61,372,445	98,156,994
Other	12,177,456	-	-	-	-	12,177,456
Total financial liabilities (contractual maturity dates)	470,094,067	55,357,545	76,997,607	106,375,124	76,767,601	785,591,944
Total financial liabilities (expected maturity dates)	113,166,684	40,954,345	78,460,202	157,924,759	396,534,836	787,040,826
Total financial assets (expected maturity dates)	195,213,110	10,195,841	52,245,742	350,473,841	490,070,804	1,098,199,338

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

	The Bank					
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at September 30, 2020:						
Due to other banks	16,626,125	13,156,538	5,685,322	128,462	-	35,596,447
Customer deposits	395,453,051	7,371,779	8,113,822	478,665	-	411,417,317
Repurchase agreements	29,640,937	7,243,221	38,705,206	1,088,000	3,978,972	80,656,336
Obligations under securitisation arrangements	3,392,954	387,110	10,024,016	38,569,678	37,010,204	89,383,963
Other borrowed funds	303,506	63,222	136,618	5,888,803	11,797,498	18,189,647
Lease Liabilities	49,806	138,456	233,551	654,146	575,184	1,651,144
Other	9,216,343	-	-	-	-	9,216,343
Total financial liabilities (contractual maturity dates)	454,682,722	28,360,326	62,898,535	46,807,754	53,361,858	646,111,17
Total financial liabilities (expected maturity dates)	52,285,056	24,122,145	64,187,553	96,558,796	414,340,131	651,493,682
Total financial assets (expected maturity dates)	184,885,448	10,581,625	38,312,362	252,861,911	408,002,575	894,643,921

	The Bank					
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at September 30, 2019:						
Due to other banks	11,058,759	3,427,839	5,824,335	-	-	20,310,933
Customer deposits	331,722,521	5,996,631	9,996,843	2,014,507	-	349,730,502
Repurchase agreements	29,256,514	6,458,281	720,097	41,952,894	-	78,387,786
Obligations under securitisation arrangements	2,230,244	1,213,217	10,891,642	33,184,758	8,107,276	55,627,137
Other borrowed funds	276,687	246,436	2,482,685	9,099,654	5,554,292	17,659,754
Other	12,090,233	-	-	-	-	12,090,233
Total financial liabilities (contractual maturity dates)	386,634,958	17,342,404	29,915,602	86,251,813	13,661,568	533,806,344
Total financial liabilities (expected maturity dates)	40,671,815	15,219,740	31,344,511	144,613,780	334,032,047	565,881,893
Total financial assets (expected maturity dates)	179,053,019	5,629,144	39,752,165	271,982,356	293,721,177	790,137,861

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financial institutions.

Off-statement of financial position items

The tables below show the contractual expiry by maturity of commitments.

	The Group			
	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At September 30, 2020				
Credit commitments	46,342,500	15,513,504	123,000	61,979,004
Guarantees, acceptances and other financial facilities	8,189,406	634,415	2,351,882	11,175,703
Capital commitments	1,688,377	-	-	1,688,377
	56,220,283	16,147,919	2,474,882	74,843,084
At September 30, 2019				
Credit commitments	51,973,093	5,381,756	1,414,307	58,769,156
Guarantees, acceptances and other financial facilities	5,659,064	910,383	2,103,730	8,673,177
Operating lease commitments	26,399	234,835	255,139	516,373
Capital commitments	4,656,873	-	-	4,656,873
	62,315,429	6,526,974	3,773,176	72,615,579

	The Bank			
	No later than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
At September 30, 2020				
Credit commitments	46,342,500	15,513,504	123,000	61,979,004
Guarantees, acceptances and other financial facilities	6,453,058	634,415	2,351,882	9,439,355
Capital commitments	1,688,377	-	-	1,688,377
	54,483,935	16,147,919	2,474,882	73,106,736
At September 30, 2019				
Credit commitments	51,973,093	5,381,756	1,414,307	58,769,156
Guarantees, acceptances and other financial facilities	3,751,842	910,384	2,103,730	6,765,956
Operating lease commitments	26,399	234,835	255,139	516,373
Capital commitments	4,659,513	-	-	4,659,513
	60,410,847	6,526,975	3,773,176	70,710,998

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

Capital commitments are in relation to approved expenditures for property, plant, equipment and computer software that were unused as at the end of the respective financial years either because they relate to work in progress or are awaiting the start of the project. Of the total capital commitments, planned expenditure valuing $48,341,000 (2019 – $51,464,000) for the Group has already been contracted.

(c) Market risk

The Group takes on exposure to market risk, which is defined as the potential for loss arising from changes in the market value of the organisation's financial instruments due to changes in certain market variables, such as interest rates, foreign exchange rates, equity prices, market liquidity and credit spreads.

The Group incurs market risk primarily in treasury, trading and structural banking activities. The Group takes a comprehensive governance approach in accordance with the enterprise-wide risk management framework. This includes:

- Oversight provided by the relevant governance committees.
- An independent market risk oversight function.
- The utilisation of tools and models to measure market risk exposure.
- Limit setting mechanisms and a monitoring process.
- The utilisation of scenario analysis and of stress testing for worst case events.

COVID-19

Our investment portfolios were impacted by the widening of credit spreads resulted in significant fall-off in asset prices. We maintained surveillance of the portfolio to determine if any action would have been required to protect the Group's balance sheet. Post June 2020, we observed improvements across the financial asset classes, albeit not to pre-covid levels.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the Group takes an open position in a currency. To control this exchange risk, the Group has approved limits for net open positions in each currency for both intra-day and overnight.

The Group also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to be settled. The Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

COVID-19

The tourism sector is a significant foreign currency generator for most of the countries in which we operate. The cessation in travel severely impacted foreign currency inflows which resulted in increased foreign currency volatility. This necessitated aggressive management of our currency exposures to ensure that there were no significant losses generated during the period.

43. Financial Risk Management (Continued)

(c) Market risk (continued)

	The Group					
	J$	US$	GBP	CAN$	Other	Total
September 30, 2020	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash in hand and balances at Central Banks	46,160,240	22,575,969	1,606,932	359,167	507,432	71,209,740
Due from other banks	3,585,525	65,860,277	8,547,565	2,144,775	4,421,538	84,559,680
Investment securities	147,166,728	233,230,535	926,608	311,185	7,684,778	389,319,834
Reverse repurchase agreements	1,924,524	4,311,743	-	-	-	6,236,267
Loans and advances, net of provision for credit losses	239,635,856	92,956,825	-	-	4,522,867	337,115,548
Derivative financial instruments	287,758	-	-	-	-	287,758
Other	7,651,402	2,369,059	2,134	-	105,206	10,127,801
Total financial assets	446,412,033	421,304,408	11,083,239	2,815,127	17,241,821	898,856,628
Liabilities						
Due to other banks	1,339,116	17,961,381	128,171	52,369	33,427	19,514,464
Customer deposits	251,926,180	159,606,934	11,044,416	2,089,345	7,138,708	431,805,583
Repurchase agreements	68,782,567	140,829,627	-	-	1,861,999	211,474,193
Obligations under securitisation arrangements	-	71,859,041	-	-	-	71,859,041
Other borrowed funds	13,779,488	9,821,401	-	-	1,824,402	25,425,291
Liabilities under annuity and insurance contracts						
Derivative financial instruments						
Lease Liabilities	1,235,688	475,185	-	-	5,54	1,716,419
Other	18,981,059	7,144,281	85,170	29,692	592,139	26,832,341
Total financial liabilities	356,044,098	407,697,850	11,257,757	2,171,406	11,456,221	788,627,332
Net position on- statement of financial position	90,367,935	13,606,558	(174,518)	643,721	5,785,600	110,229,296
Guarantees, acceptances and other financial facilities	4,188,220	6,854,127	-	-	133,356	11,175,703
Credit commitments	48,268,149	13,710,855	-	-	-	61,979,004

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on- and off-statement of financial position financial instruments (continued)

	The Group					
	JMD$	**US$**	**GBP**	**CAN$**	**Other**	**Total**
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Banks	35,990,484	21,406,769	1,685,701	401,063	703,492	60,187,509
Due from other banks	7,258,901	38,755,860	8,038,853	2,264,919	5,982,732	62,301,265
Reverse repurchase agreements	184,046,330	185,717,855	831,620	-	3,580,739	374,176,544
Loans and advances, net of provision for credit losses	2,042,594	882,978	-	-	-	2,925,572
Investment securities	215,437,635	94,835,349	-	-	2,641,944	312,914,928
Derivative financial instruments	-	239,279	-	-	-	239,279
Other	3,958,117	3,771,170	3,080	7,496	170,838	7,910,701
Total financial assets	448,734,061	345,609,260	10,559,254	2,673,478	13,079,745	820,655,798
Liabilities						
Due to other banks	1,241,302	15,845,315	94,930	50,860	35,168	17,267,575
Customer deposits	219,130,561	124,153,712	10,442,868	2,106,522	9,039,074	364,872,737
Repurchase agreements	74,503,838	98,891,573	-	-	1,562,179	174,957,590
Obligations under securitisation arrangements	-	48,675,581	-	-	-	48,675,581
Other borrowed funds	23,514,887	11,161,586	-	-	-	34,676,473
Liabilities under annuity and insurance contracts	28,144,213	632,482	-	-	-	28,776,695
Derivative financial instruments	-	239,279	-	-	-	239,279
Other	16,547,293	4,608,377	65,554	177,579	390,193	21,788,996
Total financial liabilities	363,082,094	304,207,905	10,603,352	2,334,961	11,026,614	691,254,926
Net position on- statement of financial position	85,651,967	41,401,355	(44,098)	338,517	2,053,131	129,400,872
Guarantees, acceptances and other financial facilities	3,454,191	5,100,536	989	-	117,461	8,673,177
Credit commitments	43,547,393	15,221,763	-	-	-	58,769,156

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk–on- and off-statement of financial position financial instruments (continued)

	The Bank					
	J$	US$	GBP	CAN$	Other	Total
September 30, 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Bank	44,194,147	22,546,182	1,606,932	359,167	19,926	68,726,354
Due from other banks	8,718,701	49,947,628	7,877,877	2,115,286	2,623,861	71,283,353
Reverse repurchase agreements	400,000	566,716	-	-	-	966,716
Loans and advances, net of provision for credit losses	239,460,935	88,218,618	-	-	-	327,679,553
Investment Securities	60,281,157	125,095,874	926,608	-	695,433	186,999,072
Derivative financial instruments	287,758	-	-	-	-	287,758
Other	6,711,795	2,074,026	1,668	-	-	8,787,489
Total financial assets	360,054,493	288,449,044	10,413,085	2,474,453	3,339,220	664,730,295
Liabilities						
Due to other banks	1,094,540	31,943,790	328,253	53,724	47,100	33,467,407
Customer deposits	257,875,314	137,409,644	10,377,556	2,124,408	1,366,738	409,153,660
Repurchase agreements	19,605,268	58,837,812	-	-	-	78,443,080
Obligations under securitisation arrangements	-	71,859,041	-	-	-	71,859,041
Other borrowed funds	11,197,830	2,374,532	-	-	-	13,572,362
Lease Liabilities	1,210,516	440,628	-	-	-	1,651,144
Other	6,182,958	2,967,214	12,909	7,035	46,227	9,216,343
Total financial liabilities	297,166,426	305,832,661	10,718,718	2,185,167	1,460,065	617,363,037
Net position on- statement of financial position	62,888,067	(17,383,617)	(305,633)	289,286	1,879,155	47,367,258
Guarantees, acceptances and other financial facilities	4,170,128	5,135,871	-	-	133,356	9,439,355
Credit commitments	48,268,149	13,710,855	-	-	-	61,979,004

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk – on- and off-statement of financial position financial instruments (continued)

	The Bank					
	J$	**US$**	**GBP**	**CAN$**	**Other**	**Total**
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Bank	35,971,935	21,166,527	1,685,701	401,063	12,341	59,237,567
Due from other banks	6,886,021	32,395,539	7,147,841	2,097,812	2,314,426	50,841,639
Reverse repurchase agreements	-	223,923	-	-	-	223,923
Loans and advances, net of provision for credit losses	213,061,929	90,950,173	-	-	-	304,012,102
Investment securities	70,085,821	91,959,303	831,618	-	157,868	163,034,610
Other	3,686,984	2,404,220	2,662	215	-	6,094,081
Total financial assets	329,692,690	239,099,685	9,667,822	2,499,090	2,484,635	583,443,922
Liabilities						
Due to other banks	1,241,290	17,194,477	94,930	50,860	22,997	18,604,554
Customer deposits	219,130,355	117,364,370	9,628,508	2,067,804	1,289,021	349,480,058
Repurchase agreements	26,318,321	48,642,211	-	-	-	74,960,532
Obligations under securitisation arrangements	-	48,675,581	-	-	-	48,675,581
Other borrowed funds	10,330,990	2,224,024	-	-	-	12,555,014
Other	10,289,368	1,769,274	10,652	7,286	13,652	12,090,232
Total financial liabilities	267,310,324	235,869,937	9,734,090	2,125,950	1,325,670	516,365,971
Net position on- statement of financial position	62,382,366	3,229,748	(66,268)	373,140	1,158,965	67,077,951
Guarantees, acceptances and other financial facilities	3,419,591	3,227,914	989	-	117,461	6,765,955
Credit commitments	43,547,393	15,221,763	-	-	-	58,769,156

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

The following table indicates the currencies to which the Group and the Bank have significant exposures on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for changes in foreign currency rates. The sensitivity analysis includes loans and advances to customers, investment securities and deposits. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in each variable, variables had to be considered on an individual basis. It should be noted that movements in these variables are non-linear. There was no effect on other comprehensive income.

	2020			2019		
	% Change in Currency Rate	Effect on Profit Before Tax		% Change in Currency Rate	Effect on Profit Before Tax	
		The Group	The Bank		The Group	The Bank
		$'000	$'000		$'000	$'000
Currency:						
USD	Appreciation 2%	(280,944)	338,860	Appreciation 2%	(828,027)	(64,595)
	Depreciation 6%	842,831	(1,016,579)	Depreciation 4%	1,656,054	129,190
GBP	Appreciation 2%	3,490	6,113	Appreciation 2%	882	1,112
	Depreciation 6%	(10,471)	(18,338)	Depreciation 4%	(1,764)	(2,224)
CAN	Appreciation 2%	(12,874)	(5,786)	Appreciation 2%	(6,770)	(7,463)
	Depreciation 6%	38,623	17,357	Depreciation 4%	13,541	14,925

(ii) Interest rate risk

Interest rate risk arises when the Group's principal and interest cash flows from on and off statement of financial position items have mismatched repricing dates. The short term impact is experienced on the Group's net interest income and long term impact is felt on its equity.

The Group incurs interest rate mismatches from its interest bearing assets and liabilities with the size of such exposure being heavily dependent on the direction and degree of interest rate movements in addition to the size and maturity structure of the mismatched position. The Group's policy requires that such mismatches are managed. Accordingly, the Board requires that a comprehensive system of limits, gap analysis and stress testing be used to manage the Group's exposure.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Limits are established and monitored with respect to the level of mismatch of interest rate repricing that may be undertaken.

The following tables summarise the exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
September 30, 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Banks	19,087,882	-	-	-	-	52,121,858	71,209,740
Due from other banks	47,648,696	10,130,715	3,703,743	-	-	23,076,526	84,559,680
Reverse repurchase agreements	5,619,181	470,786	(12,184)	141,572	-	16,912	6,236,267
Loans and advances, net of provision for credit losses	42,473,682	4,921,432	16,294,620	120,275,240	151,752,354	1,398,220	337,115,548
Investment securities	32,620,437	12,523,551	37,648,411	104,428,207	189,386,271	12,712,957	389,319,834
Derivative financial instruments	-	-	-	-	-	287,758	287,758
Other	-	-	-	-	-	10,127,801	10,127,801
Total financial assets	147,449,878	28,046,484	57,634,590	224,845,019	341,138,625	99,742,032	898,856,628
Liabilities							
Due to other banks	6,347,976	7,290,376	2,288,632	-	-	3,587,480	19,514,464
Customer deposits	379,731,123	24,558,930	22,683,731	2,512,607	-	2,319,192	431,805,583
Repurchase agreements	97,283,461	35,142,828	73,870,941	88,052	3,726,460	1,362,451	211,474,193
Obligations under securitisation arrangements	2,490,116	-	7,689,417	28,391,592	32,811,086	476,830	71,859,041
Other borrowed funds	6,861,877	1,113,013	721,418	2,796,117	12,985,911	946,955	25,425,291
Lease Liabilities	115,083	138,456	233,551	654,146	575,183	-	1,716,419
Derivative financial instruments							
Other	-	-	-	-	-	26,832,341	26,832,341
Total financial liabilities	492,829,636	68,243,603	107,487,690	34,442,514	50,098,640	35,525,249	788,627,332
On-statement of financial position interest sensitivity gap	(345,379,758)	(40,197,119)	(49,853,100)	190,402,505	291,039,985	64,216,783	110,229,296
Cumulative interest sensitivity gap	(345,379,758)	(385,576,877)	(435,429,977)	(245,027,472)	46,012,513	110,229,296	

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Banks	10,010,223	-	-	-	-	50,177,286	60,187,509
Due from other banks	47,787,531	-	4,364,574	-	-	10,149,160	62,301,265
Reverse repurchase agreements	2,170,360	700,000	50,000	-	-	5,213	2,925,573
Loans and advances, net of provision for credit losses	8,865,217	12,686,841	107,156,994	84,788,984	98,403,751	1,013,140	312,914,928
Investment securities	43,733,144	20,448,960	33,721,250	75,494,355	189,808,955	10,969,880	374,176,544
Derivative financial instruments	-	-	-	-	-	239,279	239,279
Other	-	-	-	-	-	7,910,701	7,910,701
Total financial assets	112,566,475	33,835,801	145,292,818	160,283,339	288,212,706	80,464,660	820,655,799
Liabilities							
Due to other banks	6,290,052	7,619,266	-	-	-	3,358,257	17,267,575
Customer deposits	331,882,660	9,535,072	19,530,084	3,438,162	-	486,759	364,872,737
Repurchase agreements	59,805,648	50,075,371	22,643,341	41,508,658	-	924,572	174,957,590
Obligations under securitisation arrangements	1,634,716	1,117,850	12,498,311	25,293,550	7,565,430	565,724	48,675,581
Other borrowed funds	734,957	10,571,893	3,097,618	7,835,313	12,129,105	307,587	34,676,473
Liabilities under annuity and insurance contracts	29,207,164	-	-	-	-	(430,469)	28,776,695
Derivative financial instruments	-	-	-	-	-	239,279	239,279
Other	-	-	-	-	-	21,788,996	21,788,996
Total financial liabilities	429,555,197	78,919,452	57,769,354	78,075,683	19,694,535	27,240,705	691,254,926
On-statement of financial position interest sensitivity gap	(316,988,722)	(45,083,651)	87,523,464	82,207,656	268,518,171	53,223,955	129,400,873
Cumulative interest sensitivity gap	(316,988,722)	(362,072,373)	(274,548,909)	(192,341,253)	76,176,918	129,400,873	

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Bank						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2020	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Bank	17,092,752	-	-	-	-	51,633,602	68,726,354
Due from other banks	46,376,587	4,467,847	-	-	-	20,438,919	71,283,353
Reverse repurchase agreements	566,287	400,000	-	-	-	429	966,716
Loans and advances, net of provision for credit losses	39,988,050	4,730,448	14,300,914	115,885,713	151,452,587	1,321,841	327,679,553
Investment securities	19,959,374	1,684,291	20,474,438	55,494,827	87,133,905	2,252,237	186,999,072
Derivative financial instruments	-	-	-	-	-	287,758	287,758
Other	-	-	-	-	-	8,787,489	8,787,489
Total financial assets	123,983,050	11,282,586	34,775,352	171,380,540	238,586,492	84,722,275	664,730,295
Liabilities							
Due to other banks	8,720,817	12,953,244	5,577,925	-	-	6,215,421	33,467,407
Customer deposits	379,878,918	15,125,484	11,564,788	577,883	-	2,006,587	409,153,660
Repurchase agreements	29,324,113	6,948,627	38,019,222	-	3,707,255	443,863	78,443,080
Obligations under securitisation arrangements	2,490,116	-	7,689,417	28,391,592	32,811,086	476,830	71,859,041
Other borrowed funds	107,767	24,389	64,738	1,017,962	12,050,795	306,711	13,572,362
Lease Liabilities	49,807	138,456	233,551	654,146	575,184	-	1,651,144
Other	-	-	-	-	-	9,216,343	9,216,343
Total financial liabilities	420,571,538	35,190,200	63,149,641	30,641,583	49,144,320	18,665,755	617,363,037
On-statement of financial position interest sensitivity gap	(296,588,488)	(23,907,614)	(28,374,289)	140,738,957	189,442,172	66,056,520	47,367,258
Cumulative interest sensitivity gap	(296,588,488)	(320,496,102)	(348,870,391)	(208,131,434)	(18,689,262)	47,367,258	

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Bank						
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Bank	9,751,752	-	-	-	-	49,485,815	59,237,567
Due from other banks	27,126,223	-	4,364,574	-	-	19,350,842	50,841,639
Reverse repurchase agreements	223,593	-	-	-	-	330	223,923
Loans and advances, net of provision for credit losses	51,277,346	3,335,690	9,750,308	103,587,783	134,002,199	2,058,776	304,012,102
Investment securities	31,249,137	9,513,213	12,666,794	27,408,499	80,264,019	1,932,948	163,034,610
Other	-	-	-	-	-	6,094,081	6,094,081
Total financial assets	119,628,051	12,848,903	26,781,676	130,996,282	214,266,218	78,922,792	583,443,922
Liabilities							
Due to other banks	7,468,504	7,619,266	-	-	-	3,516,784	18,604,554
Customer deposits	331,479,489	5,854,123	9,832,157	1,976,120	-	338,169	349,480,058
Repurchase agreements	29,101,204	6,202,390	-	39,377,518	-	279,420	74,960,532
Obligations under securitisation arrangements	1,634,716	1,117,850	12,498,311	25,293,550	7,565,431	565,723	48,675,581
Other borrowed funds	90,041	91,638	314,483	753,548	11,187,705	117,599	12,555,014
Other	-	-	-	-	-	12,090,232	12,090,232
Total financial liabilities	369,773,954	20,885,267	22,644,951	67,400,736	18,753,136	16,907,507	516,365,971
On-statement of financial position interest sensitivity gap	(250,145,903)	(8,036,364)	4,136,725	63,595,546	195,513,082	62,014,865	67,077,951
Cumulative interest sensitivity gap	(250,145,903)	(258,182,267)	(254,045,542)	(190,449,996)	5,063,806	67,077,951	

(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the effective interest rates for financial instruments by major currencies.

	The Group				The Bank			
	J$	**US$**	**CAN$**	**GBP**	**J$**	**US$**	**CAN$**	**GBP**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**
September 30, 2020								
Assets								
Balances at Central Banks	0.51	-	-	-	0.51	0.01	-	-
Due from other banks	1.81	0.77	-	0.24	1.81	0.77	-	0.24
Reverse repurchase agreements	2.07	2.12	-	-		1.85	-	-
Loans and advances	12.48	7.85	-	-	12.48	7.86	-	-
Investment securities	5.16	4.66	-	-	3.84	4.07	-	2.01
Liabilities								
Due to other banks	-	3.29	-	-		3.29		
Customer deposits	1.00	0.61	0.001	0.001	1.00	0.61	0.001	0.001
Repurchase agreements	1.37	3.84	-	-	1.08	4.39	-	-
Obligations under securitisation arrangements	6.38	-	-	-	-	6.38	-	-
Other borrowed funds	6.17	3.30	-	-	6.21	3.79	-	-
September 30, 2019								
Assets								
Balances at Central Banks	0.50	-	-	-	0.50	-	-	-
Due from other banks	-	1.16	-	-		1.16	-	-
Reverse repurchase agreements	1.76	2.50	-	-		2.63	-	-
Loans and advances	13.26	8.18	-	-	13.12	8.90	-	-
Investment securities classified as available-for-sale and loans and receivables	5.05	5.41	-	2.01	4.21	3.39	-	2.01
Liabilities								
Due to other banks	2.07	4.59	-	-	2.07	4.59	-	-
Customer deposits	1.02	0.72	0.09	0.12	1.02	0.72	0.09	0.12
Repurchase agreements	1.26	4.13	-	-	1.69	4.99	-	-
Obligations under securitisation arrangements	-	6.00	-	-	-	6.00	-	-
Other borrowed funds	5.31	4.55	-	-	5.45	4.48	-	-

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity
The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the income statement and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on the floating rate of non-trading financial assets and financial liabilities. The sensitivity of other comprehensive income is calculated by revaluing fixed rate FVOCI financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be assessed on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group	
	Effect on Profit before Tax	Effect on Other Components of Equity
	2020 $'000	2020 $'000
Change in basis points:		
Decrease - JMD -100 and USD -100	115,542	17,724,386
Increase - JMD +100 and USD +100	5,015	(16,120,940)
	2019 $'000	2019 $'000
Change in basis points:		
Decrease - JMD -100 and USD -100	(24,413)	12,770,252
Increase - JMD +100 and USD +100	35,325	(11,179,927)

	The Bank	
	Effect on Profit before Tax	Effect on Other Components of Equity
	2020 $'000	2020 $'000
Change in basis points:		
Decrease - JMD -100 and USD -100	(129,765)	6,170,012
Increase - JMD +100 and USD +100	130,482	(5,507,587)

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity (continued)

	The Bank	
	Effect on Profit before Tax	Effect on Other Components of Equity
	2019	2019
	$'000	$'000
Change in basis points:		
Decrease - JMD -100 and USD -100	(171,283)	4,603,791
Increase - JMD +100 and USD +100	172,209	(4,316,649)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(iii) Other price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified either as FVOCI or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in quoted equity securities are of entities that are publicly traded on the Jamaica Stock Exchange.

Sensitivity to changes in price of equity securities

The following table indicates the sensitivity to a reasonable possible change in prices of equity securities, with all other variables held constant, on the income statement and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed fair value changes of investment securities classified at fair value through profit or loss. The sensitivity of other comprehensive income is the effect of the assumed fair value changes of investment securities classified as FVOCI. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variable, variables had to be assessed on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group			
	Effect on Profit before Tax	Effect on Equity	Effect on Profit before Tax	Effect on Equity
	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Percentage change in share price				
10% decrease	(829,175)	-	(703,316)	-
10% increase	829,175	-	703,316	-

	The Bank			
	Effect on Profit before Tax	Effect on Equity	Effect on Profit before tax	Effect on Equity
	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Percentage change in share price				
10% decrease	(18)	-	(17,201	-
10% increase	18	-	17,20	-

43. Financial Risk Management (Continued)

(d) Derivative financial instruments

The Group's derivative transactions are primarily directed at hedging its risk exposures which arise during the normal course of its treasury and investment activities. When entering into derivative transactions, the Group employs the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

(e) Insurance risk

During the year the Group issued contracts that transferred insurance risk or financial risk or both.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract this risk is random and therefore unpredictable. Experience shows that the larger the portfolio of similar insurance contracts, the smaller will be the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of or severity of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Life insurance risk

During the year the Group issued contracts that had a maximum period determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the Group had to assess the cash flows which may be attributable to the contract. The process of underwriting may also be undertaken and may include specific medical tests and other enquiries which affect the Group's assessment of the risk.

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for insurance contracts with investment options and has the right to alter these charges based on mortality experience and hence to minimise its exposure to mortality risk on these contracts. Delays in implementing increases in mortality charges, and contractual, market or regulatory restraints over the extent of any increases, may reduce this mitigating effect.

The Group also manages mortality risks on its contracts through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to minimise the risk of anti-selection. The Group's underwriting strategy has a twofold approach:

a) products that are subject to traditional methods of application and assessment are controlled by traditional underwriting methods including medical and financial selection with benefits being limited to reflect the health and/or financial condition of applicants and by the application of retention limits on any single life insured.

b) products which are not subject to traditional methods of application and assessment contain pre-existing conditions and exclusionary clauses for certain types of high-risk medical and financial events, with claims on these types of policies examined for breaches to those clauses and denied or settled accordingly.

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)
The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured.

	Total Benefits Assured - Group	
	2019	
	$'000	$'000
	Contracts with Investment Options	Contracts without Investment Options
Benefits assured per life ($000		
0 - 999 / 0 – 1,000	14,755,663	3,187,621
1,000 - 5,000 / 1,000 – 2,000	23,094,171	42,159,916
5,001 - 10,000 / 2,000 – 5,000	7,792,824	-
10,001 - 15,000 / 5,000 –	1,979,221	-
10,000 15,001 - 20,000 / Over	1,575,380	-
10,000 Over 20,000	3,391,490	-
	52,588,749	45,347,537

	Total Benefits Assured - Group	
	2019	
	$'000	$'000
	Before Re-insurance	After Re-insurance
Benefits assured per life ($000		
0 - 999 / 0 – 1,000	23,367,225	23,365,659
1,000 - 5,000 / 1,000 – 2,000	36,774,366	36,629,861
5,001 - 10,000 / 2,000 – 5,000	19,292,465	15,496,302
10,001 - 15,000 / 5,000 –	8,628,746	3,943,855
10,000 15,001 - 20,000 / Over	5,242,430	2,072,128
10,000 Over 20,000	8,665,009	2,345,168
	101,970,241	83,852,973

The Group uses catastrophe re-insurance cover against its Ordinary Life, Group Life and Creditor Life contracts as the main risks faced by these contracts are interest rate and liquidity.

- The premium ceded during the year in respect of catastrophe re-insurance cover amounted to $Nil (2019– $52,512,000). Premium income recognised in the income statement is shown net of these amounts.
- Policyholders' benefits recovered from reinsurers during the year under these contracts amounted to $Nil (2019 – $48,696,000).
- At September 30, 2020, premiums payable under re-insurance contracts amounted to $Nil (2019 – $6,190,000).

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)
The following table for annuity contracts illustrates the concentration of risk in relation to the amount payable as if the annuity were in payment at the yearend:

	Total Annuities Payable
	2019
	$'000
Annuities payable per annum per annuitant ('000)	
0 - 200 / 0 -100	57,331
200 - 300 / 100 – 300	139,786
300 - 400 / 300 – 500	130,192
400 - 500 / 500 – 1,000	252,782
Over 500 / 1,000	847,876
	1,427,967

The Group does not hold any re-insurance against the liabilities in these contracts.

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holders' behaviour. The Group has factored the impact of contract holders' behaviour into the assumptions used to measure these liabilities.

Sources of uncertainty in the estimation of future benefit payments and premium payments
Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and morbidity and the variability in policyholder behaviour.

The Group uses appropriate base tables of standard mortality and morbidity according to the type of contract being written. An investigation as to the actual experience of the Group is carried out by the actuary, and a comparison of the actual rates with expected rates is performed. Where data are insufficient to be statistically credible, the best estimates of future mortality and morbidity are based on standard industry tables adjusted for the Group's overall experience. For contracts that insure survival, an adjustment is made for future mortality and morbidity improvements based on trends identified in the continuous mortality and morbidity investigations performed by actuarial bodies. The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates to be used for the best estimate assumption.

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

Process used in deriving assumptions
The assumptions for insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

Estimates are made in two stages:
(i) At inception of the contract, the Group determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used as the base assumptions for calculating the liabilities; and
(ii) Subsequently, new estimates are developed at each reporting date and the assumptions are altered to reflect the latest current estimates or experience.

Assumptions are considered to be ‘best estimate’ if, on average, the results are expected to be worse than the assumptions in 50% of possible scenarios and better in the other 50%. See Note 33 for details on policy assumptions.

Reinsurance risk
Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. The Group limits the probable loss in the event of individual deaths and any single catastrophic accident occurrence by reinsuring its insurance risk above certain limits with other insurers. Reinsurance ceded does not discharge the Group’s liability as the primary insurer. The Group manages reinsurance risk by selecting reinsurers with high credit ratings and monitoring these on an ongoing basis. The current reinsurer is Swiss Re (registered in Canada) whose financial strength rating from Standard & Poor’s is AA- (at October 24, 2019) and from AM Best A+ (at December 13, 2019).

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The limits of coverage accepted by the Group under these contracts falls into two main categories with limits of $3,000,000 and $7,500,000 per life, coverage in excess of these limits is ceded to reinsurers.

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk
The Group managed its property and casualty insurance risk through its underwriting policy that included *inter alia*, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance. The Group actively monitored insurance risk exposures both for individual and portfolio types of risks. These methods include internal risk measurement, portfolio modeling and scenario analyses.

Underwriting strategy
The Group managed the risks arising from its underwriting of property and casualty insurance contracts through policies which provide guidance on how to determine the insurability of risks and exposure to large claims. The Group followed detailed, uniform underwriting practices and procedures designed to properly assess and quantify risks before issuing coverage. The Group's underwriting guidelines also outline acceptance limits and the appropriate levels of authority for acceptance of risks.

Reinsurance strategy
A detailed analysis of the Group's exposures, reinsurance needs and quality of reinsurance securities was conducted by the Board and Senior Management. The Group's exposures were evaluated by Management to ensure that its reinsurance arrangements remain adequate and mechanisms are in place to continually monitor the reinsurance counterparties to ensure that they maintain "A" rating, in keeping with the Group's insurance subsidiary Reinsurance Risk Management Policy.

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)

Motor insurance

Motor insurance contracts provided cover in respect of policyholders' motor vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage. In general, claims reporting lags are minor and claims complexity is relatively low.

The risks relating to motor contracts were managed primarily through the pricing and selection process. The Group monitored and reacted to changes in trends of injury awards, litigation and the frequency of claims appeals.

Property insurance

Property insurance indemnifies, subject to any limits or excesses, the policyholder against the loss or damage to their own material property and business interruption arising from this damage. The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay. Property business is therefore classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.

The risks relating to property contracts are managed primarily through the pricing and selection process. The Group uses strict underwriting criteria to ensure that the risk of losses is acceptable. Furthermore, the Group accepts property insurance risks for one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile.

Liability insurance

Under these contracts, compensation is paid for injury suffered by individuals, including employees or members of the public. The main liability exposure is in relation to bodily injury. The timing of claim reporting and settlement is a function of factors such as the nature of the coverage and the policy provisions. Although bodily injury claims have a relatively long tail, the majority of bodily injury claims are settled in full within three to four years. In general, these contracts involve higher estimation uncertainty.

Risks arising from liability insurance are managed primarily through pricing, product design, risk selection, adopting an appropriate investment strategy, rating and reinsurance. The Group monitors and reacts to changes in the general economic and commercial environment in which it operates to ensure that only liability risks which meet its criteria for profitability are underwritten. In pricing contracts, the Group's insurance subsidiary's make assumptions that cost will increase in line with the latest available research.

The Group disposed of its shares in Advantage General Insurance Company Limited in 2019.

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)
Risk exposure and concentrations of risk
The following table shows the Group's exposure to property and casualty insurance risk based on the carrying value of insurance provisions as at September 30, 2019, (the subsidiary that offered general insurance was disposed of in 2020) per major category of business:

	2019				
	Liability	**Property**	**Motor**	**Other**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Gross	11,696	10,737	4,060,919	-	4,083,352
Net of proportional reinsurance	11,696	4,925	4,056,076	-	4,072,697

Claims development
Claims development information is disclosed in order to illustrate the property and casualty insurance risk inherent in the Group. The upper section of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower section of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims. The table shown below is for 2019, subsidiary that offered general insurance which was disposed of during the year:

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2019**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of cumulative claims at end of financial year	2,077,084	1,951,568	2,170,646	2,208,371	2,336,795	1,899,066	2,133,681	1,847,838	
One year later	2,023,825	2,018,656	2,316,690	2,145,811	2,301,651	2,430,469	2,470,346		
Two years later	2,404,734	2,211,216	2,400,174	2,377,284	2,393,967	2,491,886			
Three years later	2,542,644	2,382,546	2,622,796	2,429,919	2,289,160				
Four years later	2,652,369	2,576,956	2,726,883	2,353,112					
Five years later	2,752,313	2,712,647	2,705,445						
Six years later	2,818,725	2,690,019							
Seven years later	2,783,836								
Estimate of cumulative claims	2,783,836	2,690,019	2,705,445	2,353,112	2,289,160	2,491,886	2,470,346	1,847,838	19,631,642
Cumulative payments to date	2,686,049	2,529,746	2,484,329	2,080,446	1,905,760	1,991,872	1,779,050	463,930	15,921,182
Net outstanding claims liability	97,787	160,273	221,116	272,666	383,400	500,014	691,296	1,383,908	3,710,460

Prior years' claims liability	77,789
Provision for adverse deviations	189,772
Provision for Unallocated Loss Adjustment Expenses	94,676
Final net claims liability	4,072,697

43. Financial Risk Management (Continued)

(f) Capital management

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

- To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

All of the Group's significant subsidiaries and associates are individually regulated by the relevant regulator in their jurisdiction or other regulators. The regulatory requirements to which the subsidiaries are subject include minimum capital and liquidity requirements which may limit their ability to extract capital or funds for other uses. The Group's subsidiaries and associates are also subject to statutory requirements to restrict distributions of capital and generally to maintain solvency. In most cases, the regulatory restrictions are more onerous than the statutory restrictions. Certain Group subsidiaries also raise finance using their financial assets as collateral. Encumbered assets are not available for transfer around the Group. The assets typically affected are disclosed in Note 21.

(i) **The Bank**

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Central Bank, and the relevant management committees. The required information is filed with the respective Authority at the stipulated intervals.

The Central Bank requires the Bank to:

- Hold a specified level of regulatory capital, and
- Maintain a ratio of total regulatory capital to risk-weighted assets.

The Bank's regulatory capital is divided into two tiers:

Tier 1 capital: ordinary share capital, non-redeemable non-cumulative preference shares, statutory reserve fund and retained earnings reserves. Goodwill, other intangibles and any net loss arising from the aggregate of: current year profit or loss, undistributed profits or accumulated losses for prior financial years any loss positions on revaluation reserves arising from fair value accounting, are deducted in arriving at Tier 1 capital; and

Tier 2 capital: non-redeemable cumulative preference shares, redeemable preference shares having an original term to maturity of five years or more, qualifying subordinated debt and general provisions for loss.

Equity investments in unconsolidated subsidiaries, substantial investment in any other unconsolidated entities or companies and share of accumulated losses of any unconsolidated entities are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital. The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank met all the regulatory capital requirements as at September 30, 2020.

43. Financial Risk Management (Continued)

(f) Capital management (continued)

(ii) NCB Insurance Company Limited (NCBIC)

NCBIC maintains a capital structure consisting mainly of shareholders' funds consistent with the company's profile and the regulatory and market requirements. The company is subject to a number of regulatory capital tests and also employs scenario testing on an annual basis to assess the adequacy of capital. The company has met all of these requirements during the year. Capital adequacy is managed at the operational level.

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the FSC. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The relevant capital requirement is the Minimum Continuing Capital Surplus Ratio (MCCSR) determined in accordance with the FSC regulations. This ratio is calculated by the actuary and reviewed by executive management, the Audit Committee and the Board of Directors. This measure is a risk-based formula that compares available capital and surplus to a minimum requirement set by the FSC in regard to the asset and liability profile of the company. The company met all FSC regulatory capital requirements as at September 30, 2020.

The company's capital position is sensitive to changes in market conditions, due to both changes in the value of assets and the effect that changes in investment conditions may have on the value of the liabilities. The most significant sensitivities arise from changes in interest rates and expenses. The company's capital position is also sensitive to assumptions and experience relating to mortality and persistency.

Dynamic capital adequacy testing (DCAT)

DCAT is a technique used to assess the adequacy of an insurer's financial position and financial condition in different future economic and policy experience scenarios. DCAT assesses the impact over the next 5 years on the insurer's financial position and financial condition under specific scenarios.

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the statement of financial position at a given date.

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its creditors.

43. Financial Risk Management (Continued)

(f) Capital management (continued)

(iii) NCB Capital Markets Limited (NCBCM)

The company is regulated by the FSC in Jamaica and is subject to regulatory capital tests employed by the regulator. Under the FSC regulations, the level of capital adequacy determines the maximum amount of liabilities including repurchase agreements NCBCM is able to offer to clients. In addition to the requirements of the FSC, NCBCM also engages in periodic internal testing of its capital adequacy which is reviewed by the Risk Management Committee.

The regulatory capital of the company is divided into two tiers:

(i) Tier 1 capital: share capital, retained earnings and reserves created from appropriations of retained earnings.

(ii) Tier 2 capital: qualifying subordinated debt or loan capital, qualifying capital reserves and unrealised gains derived from the fair valuation of equity instruments classified as FVOCI.

The FSC requires that the company maintain a capital base comprising at least 50% of Tier 1 capital.

In addition, the FSC employs certain ratios to test capital adequacy and solvency. The results of these ratios are included in a mandatory quarterly report submitted to the FSC. Two of the critical early warning ratios relating to the test for capital adequacy are ‘Capital over Total Assets’ and the ‘Capital Base over Risk Weighted Assets (RWA)’.

There was no change in relation to how the company manages its capital during the financial year.

NCBCM met all the FSC regulatory capital requirements as at September 30, 2020.

44. Fair Values of Financial Instruments

The Group measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 – inputs other than quoted market prices included within level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs that are unobservable.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1 and comprise most equity securities that are quoted on the Jamaica Stock Exchange.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes government bonds, certificates of deposit, commercial paper, most liquid corporate bonds and certain equity securities that are quoted on the Jamaica Stock Exchange. Indicative prices or yields of these instruments are obtained from regular, publicly available quotes by reputable pricing services, dealers and brokers, such as Bloomberg and Oppenheimer. The Group's derivatives are also included in Level 2. The embedded put option is valued using a discounted cash flow model representing the difference between the present values of future cash flows with and without exercise of the put option using observable market yields for government bonds of similar tenure. Equity-linked options are valued using standard option pricing models using observable market data from Bloomberg.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The valuation of unquoted equity instruments is subjective by nature. The determination of the fair values of unquoted equity securities requires the use of a number of individual pricing benchmarks which would involve unobservable inputs, such as earnings estimates, multiples of comparative companies, marketability discounts and discount rates.

44. Fair Values of Financial Instruments (Continued)

The following tables provide an analysis of financial instruments held as at the date of the statement of financial position that, subsequent to initial recognition, are measured at fair value. The financial instruments are classified in the fair value hierarchy into which the fair value measurement is categorised:

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2020				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica debt securities	-	250,337,337	2,412,421	252,749,758
Other government securities	-	17,154,127	424,715	17,578,842
Corporate debt securities	1,856,056	14,892,621	66,212,932	82,961,609
	1,856,056	282,384,085	69,050,068	353,290,219
Investment securities at fair value through profit or loss				
Government of Jamaica debt securities	-	9,565	-	9,565
Other government securities	-	4,017,789	-	4,017,789
Corporate debt securities	6,418	2,254,657	5,164,034	7,425,109
Quoted and unquoted equities	6,514,231	406,121	1,372,356	8,292,708
Collective Investment Schemes	66,620	220,406	-	287,026
	6,587,269	6,908,538	6,536,390	20,032,197
	8,443,325	289,292,623	75,586,458	373,322,406

44. Fair Values of Financial Instruments (Continued)

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2019				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica debt securities	-	190,163,954	17,540,400	207,704,354
Other government securities	-	12,816,837	734,657	13,551,494
Corporate debt securities	1,868,831	59,027,878	40,583,968	101,480,677
	1,868,831	262,008,669	58,859,025	322,736,525
Investment securities at fair value through profit or loss				
Government of Jamaica guaranteed corporate bonds	-	51,084	-	51,084
Other government securities	-	3,703,255	-	3,703,255
Corporate debt securities	6,566	1,031,698	5,012,781	6,051,045
Quoted and unquoted equities	5,945,218	-	1,087,943	7,033,161
Collective Investment Schemes	95,977	257,679	-	353,656
	6,047,761	5,043,716	6,100,724	17,192,201
Derivative financial instruments	-	239,279	-	239,279
	7,916,592	267,291,664	64,959,749	340,168,005
Financial liabilities				
Derivative financial instruments	-	239,279	-	239,279
Liabilities under annuity and insurance contracts	-	-	28,776,695	28,776,695
	-	239,279	28,776,695	29,015,974

The movement in the Group's financial assets classified as Level 3 during the year is as follows:

	The Group	
	2020	**2019**
	$'000	**$'000**
At start of year	64,959,749	3,067,916
Acquisitions	36,514,167	31,259,693
Transfer in on adoption of IFRS 9	-	33,002,517
Sales/Maturities	(23,671,407)	(3,056,947)
Fair value gains	(2,216,051)	686,570
At end of year	75,586,458	64,959,749

The movement in liabilities under annuity and insurance contracts is disclosed in Note 33.

44. Fair Values of Financial Instruments (Continued)

	The Bank			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
At September 30, 2020				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica debt securities	-	157,831,953	-	157,831,953
Other government securities	-	5,141,439	-	5,141,439
Corporate debt securities	-	5,072,486	6,573,085	11,645,571
		168,045,878	6,573,085	174,618,963
Investment securities at fair value through profit or loss				
Corporate debt securities	-	-	301,599	301,599
Quoted & unquoted equity securities	-	-	18,255	18,255
	-	-	319,854	319,854
	-	168,045,878	6,892,939	174,938,817
September 30, 2019				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica debt securities	-	114,257,955	-	114,257,955
Other government securities	-	4,861,407	-	4,861,407
Corporate debt securities	-	4,741,846	8,789,709	13,531,555
	-	123,861,208	8,789,709	132,650,917
Investment securities at fair value through profit or loss				
Corporate debt securities	-	-	310,710	310,710
Quoted & unquoted equity securities	153,758	-	18,255	172,013
	153,758	-	328,965	482,723
	153,758	123,861,208	9,118,674	133,133,640

The movement in the Company's financial assets classified as Level 3 during the year is as follows:

	The Bank	
	2020	2019
	$'000	$'000
At start of year	9,118,674	18,255
Acquisitions	-	5,919,223
Disposal	(2,780,750)	-
Sales/ Maturities	483,275	-
Fair value gains	71,740	-
Transfer in on adoption of IFRS 9	-	3,181,196
At end of year	6,892,939	9,118,674

44. Fair Values of Financial Instruments (Continued)

Sensitivity analysis

The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements.

Description	Unobservable input	Change in basis points	Change in fair value $'000
Other corporate bonds	Risk premium	JMD -100 and USD -50	2,216,350
		JMD +100 and USD +50	(2,069,519)

Description	Unobservable input	Change in basis points	Change in fair value $'000
Other corporate bonds	Risk premium	JMD -100 and USD -50	3,597,972
		JMD +100 and USD +100	(2,887,203)

The Group's level 3 unquoted equity securities would decrease in value by $129,795,000 should there be a 12.5% decrease in value and increase by $72,685,000 should there be a 7% increase in value. (2019 - $163,191,000) assuming a 15% decrease.

The carrying value (excluding accrued interest) (Note 20) and fair value of investment securities classified as amortised cost, are as follows:

	The Group		The Bank	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
At September 30, 2020	11,864,205	12,132,370	9,909,477	9,917,001
At September 30, 2019	30,664,755	30,954,074	28,140,033	28,179,074

Similar to debt securities classified as FVOCI, the above fair value measurements fall within Level 2 of the fair value hierarchy as indicative prices or yields of these instruments are obtained from regular, publicly available quotes by reputable pricing services, dealers and brokers, such as Bloomberg and Oppenheimer.

45. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At September 30, 2020, the Group had financial assets under administration of approximately $159,070,244,000 (2019 – $138,832,835,000).

46. Dividends

The following dividends were paid by NCB Financial Group Limited during the year:

- $0.90 per ordinary stock unit was paid in December 2019
- $1.00 per ordinary stock unit was paid in March 2020

47. Litigation and Contingent Liabilities

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

In respect of claims asserted against the Group for which, according to the principles outlined above, no provision has been made, management is of the opinion that such claims are without merit and can be successfully defended. Significant matters are as follows, all relating to National Commercial Bank Jamaica Limited:

(a) Suit has been filed by the NCB Staff Association against the Bank seeking various declarations regarding the Bank's profit sharing scheme, in particular as it relates to the financial year ended September 30, 2002. The Association has not quantified the claim. In 2017, the Supreme Court decided in favor of the NCB Staff Association. The Bank filed an appeal against the judgment. The appeal was heard for 3 days in June 2020 at the end of which the Court of Appeal reserved its judgment. In July, 2020 the Court of Appeal handed down its judgment dismissing the Bank's Appeal and affirming the decision of the Supreme Court. The Bank subsequently filed a Motion for Conditional Leave to have an appeal heard by the Judicial Committee of the Privy Council. Provision for the claim has been made in the financial statements.

(b) Suit has been filed by a customer against the Bank for breach of contract, breach of trust and negligence and damages. The claim for damages includes a sum equivalent to the profit of the business foregone as a result of an inability to access a loan approved by the Bank and the cost of interim financing. No provision was made in these financial statements for this claim as the Bank's attorneys were of the view that the suit against the Bank was unlikely to succeed. The Court subsequently ordered that the customer's claim be struck out. The customer has appealed that decision.

(c) Suit has been filed by a customer against the Bank for damages suffered as a result of the Bank's alleged negligence in relation to the sale of property. The proper value of the property, which had been owned by the customer, is in issue, along with the amount properly to be applied to the customer's loan balance. Based on the advice of the Bank's attorneys, no provision has been made in the financial statements in respect of this claim.

47. Litigation and Contingent Liabilities (Continued)

(d) Suit has been filed by a customer against the Bank for unlawful, wrongful and/or improper use of power in the appointment of a Receiver and manager of the customer's business property and assets. Damages, interest and costs have been claimed against the Bank. No provision has been made in the financial statements for this claim as the Bank's attorneys are of the opinion that the claim is unlikely to succeed.

(e) Suit was filed by a claimant seeking specific performance, damages for breach of contract, interest and costs. At the time of trial, the claim against the Bank was quantified by the claimant at approximately $31.4 billion plus interest and costs. The Supreme Court issued judgment in the Bank's favor, with the Court ordering a company (placed by the Bank into receivership) to pay the claimant $5 million plus interest. The claimant has appealed and the defendants (including the Bank) have cross-appealed that portion of the judgment in which the company in receivership was ordered to pay the claimant $5 million plus interest. However, in the light of a recent decision of the Court of Appeal, the claimant has applied to vacate the judgment of the Supreme Court as the Judge who delivered the judgment did so after he retired from the Supreme Court. Having heard the claimant's application, the Court of Appeal ordered that the matter be referred to the Supreme Court where a re-trial has been scheduled**.** No provision has been made for this claim as the Bank's attorneys are of the view that the suit against the Bank is unlikely to succeed.

A number of other suits have been filed by customers of the Group. In some instances, counter claims have been filed by the Group. Provision has been made in the financial statements for certain of these claims. No provision has been made where the Group's attorneys are of the view that the Group has a good defense against these claims.

48. Reconciliation of Liabilities arising from Financial Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash. Financing activities represent bank and other loans, excluding bank overdrafts and amounts included as cash and cash equivalents:

	The Group			
Liabilities	**Other borrowed funds $'000**	**Obligation under securitisation arrangements $'000**	**Leases $'000**	**Total $'000**
At October 1, 2018	36,418,660	58,992,666	-	95,411,326
Cash movements -				
Drawdowns	19,014,587	-	-	19,014,587
Repayment - principal	(20,924,238)	(8,798,148)	-	(29,722,386)
Non-cash movements -				
Amortisation of upfront fees	26,532	157,227	-	183,759
Foreign exchange adjustments	30,308	(1,940,791)	-	(1,910,483)
Interest payable	88,980	(105,131)	-	(16,151)
At October 1, 2019	34,654,829	48,305,823	-	82,960,652
Cash movements -				
Transfer to leases on adoption of IFRS 16	(558,865)	-	558,865	-
Drawdowns	11,101,477	35,392,925	1,600,806	48,095,208
Repayment - principal	(19,934,281)	(12,077,688)	(450,913)	(32,462,882)
Non-cash movements -				
Amortisation of upfront fees	256,869	(405,327)	-	(148,458)
Foreign exchange adjustments	-	(42,883)	7,661	(35,222)
Interest payable	(100,277)	(88,893)	-	(189,170)
At September 30, 2020	25,419,752	71,083,957	1,716,419	98,220,128

48. Reconciliation of Liabilities arising from Financial Activities (Continued)

	The Bank			
Liabilities	**Other borrowed funds $'000**	**Obligation under securitisation arrangements $'000**	**Leases $,000**	**Total $'000**
At October 1, 2018	11,562,427	58,992,666	-	70,555,093
Cash movements -				
Drawdowns	3,849,302	-	-	3,849,302
Repayment - principal	(3,030,180)	(8,798,148)	-	(11,828,328)
Non-cash movements -				
Amortisation of upfront fees	26,532	157,227	-	183,759
Foreign exchange adjustments	125,206	(1,940,791)	-	(1,815,585)
Interest payable	83	(105,131)	-	(105,048)
At October 1, 2019	12,533,370	48,305,823	-	60,839,193
Cash movements -				
Transfer to leases on adoption of IFRS 16	(533,319)	-	533,319	-
Drawdowns	5,967,544	35,392,925	1,555,625	42,916,094
Repayment - principal	(4,544,044)	(12,077,688)	(437,800)	(17,059,532)
Non-cash movements -				
Amortisation of upfront fees	(16,104)	(405,327)	-	(421,431)
Foreign exchange adjustments	163,107	(42,883)	-	120,224
Interest payable	(3,732)	(88,893)	-	(92,625)
At September 30, 2020	13,566,822	71,083,957	1,651,144	86,301,923

49. Disposal of subsidiary

Advantage General Insurance Company Limited

In the prior year, NCB Capital Markets Limited, a subsidiary of National Commercial Bank Jamaica Limited entered into an agreement to dispose of its 100% stake in Advantage General Insurance Company Limited. The transaction was finalised on September 30, 2019 for a consideration of US$50,500,000, approximately JMD$6,800,000,000. Below is a summarised income statement and balance representing the net profit contribution for the financial year and the net assets sold:

(a) Income statement

	$'000
Net underwriting income	4,885,418
Policyholders and annuitants benefit & reserves	(3,023,301)
Net commission & other selling expenses	(88,451)
Net results from insurance activities	1,773,666
Other income	686,541
Total other operating income	2,460,207
Staff & operating expenses	1,667,865
Profit before taxation	792,342
Taxation	(231,526)
Net profit	560,816

(b) Statement of financial position

	$'000
Cash & bank balances	186,227
Investment securities	8,345,735
Investment properties	734,796
Property, plant, equipment & intangible assets	1,167,080
Other assets	2,594,690
Total assets	13,028,528
Liabilities under annuity and insurance contracts	6,559,758
Other liabilities	2,336,587
Total liabilities	8,896,345
Net Assets	4,132,183

49. Disposal of subsidiary (continued)

Advantage General Insurance Company Limited (continued)

(c) Gain on Disposal

	$'000
Proceeds, net of transaction costs	6,651,806
Net assets	4,132,183
OCI gain recycled to income statement	(581,126)
Unamortised intangibles and other consolidated adjustments	474,324
Adjusted carrying value	4,025,381
Gain on disposal	2,626,425

(b) Purchase consideration - cash inflow

Inflow of cash to sell subsidiary, net of cash disposed	$'000
Cash consideration	6,651,806
Less: Balance relieved	
Cash	(186,227)
Net Inflow of cash - Investing activities	6,465,579

50. Discontinued Operation - Disposal of Insurance and Annuity Portfolio

NCB Insurance Company Limited

During the year, the NCB Insurance Company Limited, a subsidiary of the Group entered in agreement with Guardian Life Insurance, a wholly owned subsidiary of GHL, which is a subsidiary of NCBFG, to dispose of its insurance and annuity business. The identifiable assets and liabilities are as follows:

(a) Income statement

	$'000
Net underwriting income	4,234,637
Policyholders and annuitants benefit & reserves	(2,334,465)
Net results from insurance activities	1,900,172
Net interest income	1,912,386
Other income	2,646,338
Total other operating income	6,458,896
Staff & operating expenses	(2,032,452)
Profit before taxation	4,426,444
Taxation	(341,389)
Net profit	4,085,055

(b) Statement of financial position

	$'000
Investment securities	34,189,888
Other assets	1,508,535
Total assets	35,698,423
Liabilities under annuity and insurance contracts	33,547,584
Other liabilities	1,779,874
Total liabilities	35,327,458
Net Assets	370,965

50. Discontinued Operation - Disposal of Insurance and Annuity Portfolio (Continued)

(c) Gain on Disposal

	$'000
Proceeds, net of transaction costs	4,866,582
Market value of investments transferred	(35,075,794)
Policyholders' liabilities and reserves	33,547,584
Other actuarial adjustments	(3,225,455)
Gain on disposal	112,917

(c) Purchase consideration - cash inflow

Inflow of cash to sell subsidiary, net of cash disposed	$'000
Cash consideration	4,900,000
Less: Transaction fees	(33,418)
Net Inflow of cash - Investing activities	4,866,582

51. Changes in Accounting Policies

(a) Impact on financial statements

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2, the Group has adopted IFRS 16 Leases retrospectively from October 1, 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on October 1, 2019. The new accounting policies are disclosed in Note 52.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of October 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on October 1, 2019 was 9.75% for JMD leases and 6.75% for USD leases.

51. Changes in Accounting Policies (Continued)

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
  – there were no onerous contracts as at October 1, 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial
- application; and,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

The lease liabilities as at October 1, 2019 can be reconciled to the operating lease commitments as of September 30, 2019, as follows:

	$'000
Operating lease commitments disclosed as at 30 September 2019	516,373
Discounted using the lessee's incremental borrowing rate as at 30 September 2019	71,247
Discounted operating lease commitments as at 1 October 2019	587,620
Add: adjustments as a result of a different treatments of extension and termination options	684,249
Lease liabilities as at 1 October 2019	1,271,869
Of which are:	
Current lease liabilities	258,993
Non-current lease liabilities	1,012,876

51. Changes in Accounting Policies (Continued)

(c) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at September 30, 2019.

(d) Adjustments recognized in the balance sheet on 1 October 2019

The change in accounting policy affected the following items in the balance sheet on 1 October 2019:
- right-of-use assets – increase by $1,271,869,000
- lease liabilities – increase by $1,271,869,000

(e) The Income statement impact

For the year 2020 increased charges of $55,346,000 was recorded in the income statement.

52. Leases

The statement of financial position shows the following amounts relating to leases:

	2020 $'000	2019 $'000
Right-of-use assets		
Buildings	1,519,700	244,147
Motor vehicles	356,726	391,701
Equipment	125,660	180,967
	2,002,086	816,815
Lease liabilities		
Current	231,324	292,367
Non-current	1,485,095	266,498
	1,716,419	558,865

In the previous year, the Group only disclosed its operating lease commitments in relation to leases that were classified as 'operating leases' under IAS 17 Leases. Please refer to Note 43 (b).

Right-of-use asset

The Group adopted IFRS 16 as at October 1, 2019:

(i) Amounts recognised in the balance sheet

a) The statement of financial position shows the following amounts relating to leases:

Right-of-use asset	September 30 2020 $'000	October 1 2019 $'000
Buildings	1,519,700	244,147
Motor vehicles	356,726	391,701
Equipment	125,660	180,967
	2,002,086	816,815

b) As at 30 September 2019, leasehold Improvements and furniture, fittings and equipment where the Group is a lessee under a finance lease are as follows:

	Leasehold Improvements $'000	Equipment $'000	Motor Vehicles $'000
Cost	798,906	217,160	936,588
Accumulated Depreciation	(554,759)	(36,193)	(544,887)
Net book values	244,147	180,967	391,701

52. Leases (Continued)

(i) Amounts recognised in the balance sheet (continued)

As at October 1, 2019 leased assets previously classified as operating leases are presented as in the property, plant and equipment disclosure note.

Recognition of the right-of-use assets upon the adoption of IFRS 16 is $1,271,869,000. During the financial year additions through new leases and acquisitions amounted to $328,937,000.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020 $'000
Depreciation charge of right-of-use assets	
Buildings	219,880
Motor vehicles	216,096
Equipment	68,752
	504,728

Amounts recognised in the statement of comprehensive income relating to leases:

	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets	504,728	334,801
Interest expense on lease liabilities	171,134	47,657
Total expenses related to leases	675,862	382,458

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at the commencement date less any lease incentives received

Right-of-use assets are generally depreciated over the lease term on a straight line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on October 1, 2019, please refer to note 51.

52. Leases (Continued)

The Group's leasing activities

The Group leases various buildings to facilitate: execution of banking services at branches and ABMs, general business operations and housing for employees. Rental contracts are typically made for fixed periods of 1 to 10 years. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). Extension and termination options are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable by both the Group and the respective lessor.

Contracts may contain both lease and non-lease components. Where these exist, the Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and nonlease components and instead accounts for these as a single lease component. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Until the 2019 financial year, leases of property, plant and equipment were classified as operating leases. From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

To determine the incremental borrowing rate, the Group:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and,
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

52. Leases (Continued)

Extension and termination options are included in a number of property and equipment leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For leases of land and buildings, management has included various extension options in the lease liability, as relocating would from existing locations would be onerous.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include
the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and,
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of $684,249,000.

53. Offsetting Financial Assets and Financial Liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group

2020

	Gross amounts of financial assets $'000	Gross amounts set off on the balance sheet $'000	Net amounts of financial assets presented on the balance sheet $'000	Related amounts not set off in the statement of financial position: Impact of master netting agreements $'000	Cash collateral $'000	Financial instruments collateral $'000	Net amounts $'000
Assets							
Cash resources	155,769,420	-	155,769,420	-	(3,707,087)	(2,052,790)	150,009,543
Financial investments	389,319,834	-	389,319,834	(211,647,640)	-	(5,161,814)	172,510,380
	545,089,254	-	545,089,254	(211,647,640)	(3,707,087)	(7,214,604)	322,519,923
2019							
Assets							
Cash resources	122,488,774	-	122,488,774	-	(3,446,426)	(1,864,574)	117,177,774
Financial investments	374,176,544	-	374,176,544	(200,759,997)	-	(991,488)	172,425,059
	496,665,318	-	496,665,318	(200,759,997)	(3,446,426)	(2,856,062)	289,602,833

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

53. Offsetting Financial Assets and Financial Liabilities (Continued)

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	The Company						
	2020						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting agreements	Cash collateral	Financial instruments collateral	Net amounts
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash resources	140,009,707	-	140,009,707	-	(3,707,087)	(2,052,790)	134,249,830
Financial investments	186,999,072	-	186,999,072	(112,828,014)	-	(877,279)	73,293,779
	327,008,779	-	327,008,779	(112,828,014)	(3,707,087)	(2,930,069)	207,543,609
	2019						
Assets							
Cash resources	110,079,206	-	110,079,206	-	(3,446,426)	(1,864,574)	104,768,206
Financial investments	163,034,610	-	163,034,610	(105,605,305)	-	(878,499)	56,550,806
	273,113,816	-	273,113,816	(105,605,305)	(3,446,436)	(2,743,073)	161,319,012

53. Offsetting Financial Assets and Financial Liabilities (Continued)

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	The Group						
	2020						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting agreements	Cash collateral	Financial instruments collateral	Net amounts
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Repurchase agreements	211,474,193	-	211,474,193	(211,647,640)	(84,943)	-	(258,390)
Obligations under securitisation agreements	71,859,041	-	71,859,041	-	(3,622,144)	-	68,236,897
	283,333,234	-	283,333,234	(211,647,640)	(3,707,087)	-	67,978,507
	2019						
Liabilities							
Repurchase agreements	174,957,590	-	174,957,590	(200,759,997)	-	-	(25,802,407)
Obligations under securitisation agreements	48,675,581	-	48,675,581	-	(3,446,426)	-	45,229,155
	223,633,171	-	223,633,171	(200,759,997)	(3,446,426)	-	19,426,748

Notes to the Financial Statements

September 30, 2020
(expressed in Jamaican dollars unless otherwise indicated)

53. Offsetting Financial Assets and Financial Liabilities (Continued)

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	The Company						
	2020						
				Related amounts not set off in the statement of financial position			
	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Impact of master netting agreements	Cash collateral	Financial instruments collateral	Net amounts
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities							
Repurchase agreements	78,443,080	-	78,443,080	(112,828,014)	(84,943)	-	(34,469,877)
Obligations under securitisation agreements	71,859,041	-	71,859,041	-	(3,622,144)	-	68,236,897
	150,302,121	-	150,302,121	(112,828,014)	(3,707,087)	-	33,767,020
	2019						
Liabilities							
Repurchase agreements	74,960,532	-	74,960,532	(105,605,305)	-	-	(30,644,773)
Obligations under securitisation agreements	48,675,581	-	48,675,581	-	(3,446,426)	-	45,229,155
	123,636,113	-	123,636,113	(105,605,305)	(3,446,426)	-	14,584,382

54. Subsequent event

Consequent on the transfer of the portfolios on 30 September 2020, NCBIC changed its name to NCB Insurance Agency & Fund Management Limited (NCBIA&FM), as the Company continues to provide pension fund administration and investment management services.

Put Your
Best Life
Forward

HEAD OFFICE: “The Atrium”, 32 Trafalgar Road, Kingston 10
888-NCB-FIRST | ncbinfo@jncb.com | www.jncb.com