CORNERSTONE TRUST & MERCHANT BANK LIMITED

[Formerly MF&G Trust & Finance Limited]

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
CORNERSTONE TRUST & MERCHANT BANK LIMITED
[*Formerly MF&G Trust & Finance Limited*]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cornerstone Trust & Merchant Bank Limited (formerly MF&G Trust & Finance Limited) ("the Company"), set out on pages 5 to 62, which comprise the statement of financial position as at September 30, 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at September 30, 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Members of
CORNERSTONE TRUST & MERCHANT BANK LIMITED
[*Formerly MF&G Trust & Finance Limited*]

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Members of
CORNERSTONE TRUST & MERCHANT BANK LIMITED
[*Formerly MF&G Trust & Finance Limited*]

Report on the Audit of the Financial Statements (Continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Members of
CORNERSTONE TRUST & MERCHANT BANK LIMITED
[*Formerly MF&G Trust & Finance Limited*]

Report on additional matters as required by the Jamaican Companies Act

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

December 20, 2019

CORNERSTONE TRUST & MERCHANT BANK LIMITED
(Formerly MF&G Trust & Finance Limited)
Statement of Profit or Loss and Other Comprehensive Income
Year ended September 30, 2019
(With comparatives for nine months ended September 30, 2018
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
Net interest income and other revenue			
Interest income calculated using the effective interest method			
Interest income on investment and resale agreements		10,410	8,969
Interest income on loans and bank deposits		65,959	27,225
Other interest income			
Interest income on leases		55,788	44,322
Total interest income		132,157	80,516
Interest expense on deposits		(49,728)	(40,066)
Net interest income		82,429	40,450
Other revenue	6	109,873	69,892
Net interest income and other revenue		192,302	110,342
Non-interest expenses			
Staff costs	7	(139,606)	(92,684)
Impairment losses on financial assets	5(a)	(10,288)	(346)
Other	8	(149,988)	(58,187)
		(299,882)	(151,217)
Loss before income tax		(107,580)	(40,875)
Income tax	9	21,997	17,402
Loss being total comprehensive loss for the year/period		(85,583)	(23,473)

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED
(Formerly MF&G Trust & Finance Limited)

Statement of Financial Position
September 30, 2019
(With comparatives for nine months ended September 30, 2018
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
ASSETS			
Cash resources			
Statutory reserves with Bank of Jamaica	10(a)	194,832	201,006
Amounts due from banks and cash in hand	10(b)	565,186	901,727
		760,018	1,102,733
Resale agreements	11	1,084,542	66,478
Investment securities	12	239,401	137,967
Loans receivable	13	1,009,584	421,999
Net investment in finance leases	14	546,410	484,931
Property, plant and equipment	15	20,778	14,843
Other assets	16	405,470	24,208
Deferred tax asset	17	100,899	78,902
Tax recoverable		2,129	2,129
Total assets		4,169,231	2,334,190
LIABILITIES			
Customers' deposits	18	1,901,807	1,582,204
Other liabilities	19	282,355	440,986
Total liabilities		2,184,162	2,023,190
EQUITY			
Share capital	20	1,994,500	231,720
Reserve fund	21	59,945	59,945
Retained earnings reserve	22	65,000	65,000
Loan loss reserve	23	15,563	9,059
Accumulated deficit		(149,939)	(54,724)
Total equity		1,985,069	311,000
Total liabilities and equity		4,169,231	2,334,190

The financial statements on pages 5 to 62 were approved for issue by the Board of Directors on December 20, 2019 and signed on its behalf by:

____________________ Director
Arnold Aiken

____________________ Director
Paul Simpson

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED
(Formerly MF&G Trust & Finance Limited)

Statement of Changes in Equity
Year ended September 30, 2019
(With comparatives for nine months ended September 30, 2018
(Expressed in Jamaica dollars unless otherwise indicated)

	Share capital $'000 (note 20)	Reserve fund $'000 (note 21)	Retained earnings reserve $'000 (note 22)	Loan loss reserve $'000 (note 23)	Accumulated deficit $'000	Total $'000
Balances at January 1, 2018	**231,720**	**59,945**	**65,000**	**10,147**	**(32,339)**	**334,473**
Total comprehensive income:						
Loss for the period	-	-	-	-	(23,473)	(23,473)
Movement between reserves:						
Transfer from loan loss reserve (note 23)	-	-	-	(1,088)	1,088	-
Balances at September 30, 2018	**231,720**	**59,945**	**65,000**	**9,059**	**(54,724)**	**311,000**
Total comprehensive loss:						
Loss for the year	-	-	-	-	(85,583)	(85,583)
Movement between reserves:						
Transfer to loan loss reserve (note 23)	-	-	-	6,504	(6,504)	-
Shares issued [note 20(iii)]	1,762,780	-	-	-	-	1,762,780
Share issue cost	-	-	-	-	(3,128)	(3,128)
Balances at September 30, 2019	**1,994,500**	**59,945**	**65,000**	**15,563**	**(149,939)**	**1,985,069**

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED
(Formerly MF&G Trust & Finance Limited)

Statement of Cash Flows
Year ended September 30, 2019
(With comparatives for nine months ended September 30, 2018
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Loss for the year/period		(85,583)	(23,473)
Adjustments for:			
Depreciation	15	4,900	806
Impairment losses on financial instruments		10,290	346
Amortisation of software	16	182	159
Interest income		(132,157)	(80,516)
Interest expense		49,728	40,066
Income tax	9	(21,997)	(17,402)
Unrealised gain on foreign currency assets and liabilities		(16,198)	(19,309)
		(190,835)	(99,323)
Changes in operating assets and liabilities			
Statutory reserves with central bank		6,174	17,208
Net investment in leases		(63,019)	128,362
Customers' deposits		318,977	(54,987)
Loans		(587,242)	(19,613)
Other assets		(362,205)	(8,326)
Other liabilities		(182,674)	410,684
Due from related party		6,250	34,879
		(1,054,574)	408,884
Interest received		128,454	80,666
Interest paid		(49,437)	(40,554)
Income tax paid		-	(4,905)
Net cash (used in)/provided by operating activities		(975,557)	444,091
Cash flows from investing activities			
Investments, net		(110,181)	(34,300)
Purchase of property, plant and equipment	15	(10,835)	(13,838)
Net cash used in investing activities		(121,016)	(48,138)
Cash flows from financing activity			
Issue of shares, being net cash provided by financing activities		1,759,652	-
Effect of exchange rate changes on cash and cash equivalents		17,470	44,838
Net increase in cash and cash equivalents for year/period		680,549	440,791
Cash and cash equivalents at beginning of year/period		979,051	538,260
Cash and cash equivalents at end of year/period	10(c)	1,659,600	979,051

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

1. Identification

- Cornerstone Trust and Merchant Bank Limited, formerly MF&G Trust & Finance Limited ("the Company"), which is incorporated and domiciled in Jamaica, is a 100% subsidiary of Cornerstone United Holdings Jamaica Limited ("CUHJL" or "parent company"). The registered office of the Company is located at 21 East Street, Kingston, Jamaica and its principal activities are accepting deposits, granting loans and leasing of equipment.

- Change of ownership

  In July 2016 the Bank of Jamaica ("BOJ") approved a proposal for a change in ownership of the Company in which CUHJL acquired 80% of the ownership of the Company from Merban and Levas Limited ("Levas"), which is a company incorporated and domiciled in Jamaica.

  Pursuant to the BOJ's approval, CUHJL acquired 13,599,999 ordinary shares and 1 ordinary share in the Company from Merban and Levas respectively, and 6,400,000 20% non-cumulative preference shares from Merban by way of duly stamped share transfers dated December 5, 2016.

  In January 2019 CUHJL purchased the remaining 20% shareholding from Merban Holdings Limited.

2. Licence and Regulation

The Company is licensed under the Banking Services Act (2014), which became effective on September 30, 2015, replacing the Financial Institutions Act.

3. Statement of compliance and basis of preparation

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the relevant provisions of the Jamaican Companies Act ("the Act").

(b) Basis of measurement:

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

(c) Functional and presentation currency:

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Jamaica dollars, which is the Company's functional currency. Amounts are rounded to the nearest thousand, unless otherwise indicated.

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

(d) Use of judgements and estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the selection of accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income, expenses, gains and losses for the period then ended. Actual amounts could differ from those estimates. The estimates and the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision and future periods if the revision affects both current and future periods. The critical judgements made in applying accounting policies and the key areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements, and or that have a significant risk of material adjustment in the next financial period, are as follows:

(i) Judgements:

For the purpose of these financial statements, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS. The key relevant judgements are as follows:

(1) Classification of financial assets:

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

(2) Impairment of financial assets:

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

(3) Sale of leases:

In determining whether certain lease sale transactions qualify for derecognition, management exercises its judgement in applying the rules of IFRS 9 governing de-recognition of financial assets, namely the passing of substantially all the risks and rewards associated with the cash flows from the lease. For certain leases which were previously sold, management is of the view that the lease sale transactions qualify for derecognition. The leases which are the subject of the lease sales have been derecognised and a gain recorded in profit or loss.

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

(d) Use of judgements and estimates (continued):

(ii) Key assumptions concerning the future and other sources of estimation uncertainty:

(1) Allowance for impairment losses:

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimate the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions make uncertainly inherent in such estimates.

(2) Income taxes:

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. It recognises deferred tax assets on management's assessment of the availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilized. Where the tax outcome of these matters result in amounts that are different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and have been consistently applied to all the years presented unless otherwise stated.

(a) Financial instruments – Classification, recognition and de-recognition, and measurement:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise cash and cash equivalents, net investment in finance leases, resale agreements, investment securities, and other assets. Financial liabilities comprise customers' deposits and other liabilities.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(i) Recognition and initial measurement

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

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(ii) Classification and subsequent measurement (continued)

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Assessment whether contractual cash flows are solely payments of principal and interest:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. However, the information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Company's objective is to hold financial assets to collect contractual cash flows.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(ii) Classification and subsequent measurement (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the company considers the following:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- leverage features, that modify consideration of the time value of money such as periodic reset of interest rates;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

(iii) Derecognition:

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

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(iii) Derecognition (continued):

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

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

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

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

(iv) Measurement and gains and losses:

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(v) Offsetting:

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(vi) Specific financial instruments:

(1) Cash and cash equivalents:

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments rather than for investment purposes (these include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash excludes statutory reserves at Bank of Jamaica as such amounts are not available for use by the Company. Cash and cash equivalents are measured at amortised cost.

(2) Resale agreements:

Transactions involving purchases of securities under resale agreements (‘resale agreements’ ‘or reverse repos’) are accounted for as short-term collateralised lending. Accordingly, repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles.

Resale agreements are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

It is the policy of the Company to obtain possession of collateral with a market value in excess of the principal amount loaned under resale agreements.

Interest earned on resale agreements is recognised as interest income over the life of each agreement using the effective interest method.

(3) Units held in unit trust

Units held in unit trust are classified and measured at fair value through profit or loss.

(4) Other assets:

Accounts receivable is measured at amortised cost, less impairment losses.

(5) Other liabilities:

Other liabilities are measured at cost or amortised cost.

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition and de-recognition, and measurement (continued):

(vi) Specific financial instruments (continued):

(6) Customers' deposits:

Customers' deposits are measured at amortised cost.

(7) Share capital and dividends:

The Company classifies capital instruments as equity instruments or financial liabilities in accordance with the substance of the contractual terms of the instrument. Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the issuer's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the holders, or if dividends are not discretionary. Dividends thereon are recognised as interest in profit or loss.

The Company's preference shares are non-redeemable; also, they bear specified entitlements to dividends that are non-cumulative – which is interpreted by the directors as not creating a contractual obligation to pay; rather, payment is at the discretion of the directors. Accordingly, they are presented as equity.

Incremental costs directly attributable to the issue of an equity instrument are deducted from retained earnings at the initial measurement of the equity instruments.

Dividends on instruments classified as equity are recognised directly in equity; they are recognised when there is an irrevocable obligation to pay the dividend.

(b) Leases:

(i) As lessee:

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 to profit or loss on the straight-line basis over the period of the lease.

(ii) As lessor:

When assets are held under finance lease, the present value of the lease payments is recognised as a receivable and classified as net investment in leases on the statement of financial position. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Interest earned on leases is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return on the net investment in the lease.

4. Significant accounting policies (continued)

(b) Leases (continued):

(iii) Sale of stream of leasing income:

The transfer of a stream of finance lease income is accounted for as a sale (i.e., with the derecognition of the leases, and the recording of a gain or loss on the sale of such income stream) if the transfer results in the assumption of substantially all the risks and rewards associated with the lease by the purchaser of the lease stream. Any gains or losses recognised on the sale of the leases are recorded in profit or loss. Any transfer of a stream of lease income which does not result in the transfer of substantially all the risks and rewards of ownership to the purchaser of the lease, will not result in derecognition of the lease and is accounted for as a financing transaction.

(c) Interest income:

Interest income is recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

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

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

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

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

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

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

4. Significant accounting policies (continued)

(c) Interest income (continued):

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI, includes interest on financial assets measured at amortised cost, other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

(d) Fees and commission income:

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

Fee and commission income – including account service and trustees fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms.	Revenue recognition under IFRS 15.
Service fees	The Company provides administration, IT, credit risk evaluation and execution services to certain customers. Fees are charged on a monthly basis and are based on fixed rates agreed.	Revenue from service fees is recognised over time as the services are provided.
Trustee fees	The Company provides trustee service for physical custody of securities to a customer. Fees are calculated based on a fixed percentage of the value of the assets and is charged quarterly.	Revenue from trustee service is recognized over time as the service is provided.

4. Significant accounting policies (continued)

(e) Dividend income:

Dividends are recognised in profit or loss when the Company's irrevocable right to receive payment is established.

(f) Interest expense:

Interest expense is recognised in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the amortised cost of the financial liability.

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

The ‘amortised cost’ of a financial liability is the amount at which the financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The effective interest rate of a financial liability is calculated on initial recognition of a financial liability. In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

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

(g) Foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of those transactions (as a matter of practicality, an average rate may be used). Gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

Changes in the fair value of monetary securities classified as available-for-sale are analysed between differences resulting from changes in the 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 profit or loss and other changes in the carrying amount are recognised in other comprehensive income.

4. Significant accounting policies (continued)

(h) Loans and leases and provision for impairment losses:

Loans are measured at amortised cost less impairment losses. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Finance lease receivables are measured as indicated in note 4(b).

Impairment is recognized as indicated in note 4(i).

(i) Impairment of financial assets:

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

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

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

4. Significant accounting policies (continued)

(i) Impairment of financial assets (continued):

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

4. Significant accounting policies (continued)

(i) Impairment of financial assets (continued):

Credit-impaired financial assets (continued)

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

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision.

Write-off

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

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

4. Significant accounting policies (continued)

(i) Impairment of financial assets (continued):

Write-off (continued)

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

– As required by the Banking Services Act, if a payment is contractually 90 days in arrears, the loan or leases is classified as impaired, if not already classified as such.

Statutory and other regulatory reserve requirements that exceed the amounts required under IFRS are included in a non-distributable reserve fund as an appropriation of profits.

(j) Impairment of non-financial assets:

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

(i) Calculation of recoverable amount:

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

(ii) Reversals of impairment:

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

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

4. Significant accounting policies (continued)

(k) Property, plant and equipment:

Property, plant and equipment are measured at cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of property, plant and equipment is calculated using the straight-line method, to write down the cost of the assets to their residual values over their estimated useful lives, as follows:

Motor vehicle	20.0%
Furniture, equipment and leasehold	10.0%
Computer hardware	22.5%

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if such carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are included in profit or loss. Repairs and renewals are charged to profit or loss during the financial period in which they are incurred.

(l) Employee benefits:

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

(i) Benefits other than pensions

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described in note (l)(ii) below. Other long-term benefits are not considered material and are charged off when incurred.

(ii) Pension plan:

Pensions are the only post-employment benefits to which the Company is committed. To better secure such benefits, the Company participates in the defined-contribution pension plan of a related Company, Seramco Limited, which replaced a prior defined-benefit pension scheme.

4. Significant accounting policies (continued)

(l) Employee benefits (continued):

(ii) Pension plan (continued):

Pensions obligations in the former defined benefit plan were transferred by way of annuity purchases and active members started to contribute on a defined-contribution basis. The scheme is funded by contributions from the Company and employees in accordance with the rules of the scheme. Under the defined-contribution schemes, retirement benefits are based on the Company's and employees' accumulated contributions, plus interest and, therefore, the Company has no further liability to fund pension benefits. Obligations for contributions to defined contribution plans is expensed as the related services are provided (note 25).

(m) Intangible asset:

Computer software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. This is amortised on the basis of its expected useful life of five (5) years.

(n) Income tax:

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

(i) Current income tax:

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

(ii) Deferred income tax:

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

A deferred tax liability is recognised for all taxable temporary differences except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is possible that the temporary difference will not reverse in the foreseeable future.

4. Significant accounting policies (continued)

(n) Income tax (continued):

(ii) Deferred income tax (continued):

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

(o) New and amended standards and interpretations issued but not yet effective:

At the date of authorisation of the financial statements, certain new and amended standards and interpretations are in issue but were not yet effective and have not been adopted early by the Company. Those which may have an impact on the Company's financial statements are as follows:

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

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

  The Company is assessing the impact that the standard will have on its 2020 financial statements.

4. Significant accounting policies (continued)

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

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

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

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

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

  The Company is assessing the impact that the interpretation will have on it 2020 financial statements.

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

  Prepayment features with negative compensation

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if the prepayment amount substantially represents unpaid principal and interest and reasonable compensation. Reasonable compensation may be positive or negative. Prior to this amendment, financial assets with this negative compensation feature would have failed the solely payments of principal and interest test and be mandatorily measured at fair value through profit or loss.

  Modifications to financial liabilities

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

  The Company is assessing the impact that these amendments will have on its 2020 financial statements.

4. Significant accounting policies (continued)

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

- Annual Improvements to IFRS Standards 2015-2017 cycle contain amendments to IAS 12, Income *Taxes* and is effective for annual periods beginning on or after January 1, 2019.

  IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently (either in profit or loss, OCI or equity) with the transactions that generated the distributable profits.

  The Company is assessing the impact that the amendments will have on its 2020 financial statements.

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

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

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

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

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

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

  The Company does not expect the amendment to have a significant impact on its 2021 financial statements.

5. Financial instruments - risk management and fair values

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business. Management's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Company's risk management framework. The Board has established the following committees for managing and monitoring risks:

(i) Executive Committee:

The Executive Committee is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risk of the Company.

(ii) Audit Committee:

The mandate of the Audit Committee is to oversee how management monitors compliance with the Company's risk management policies and procedures and to review the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are to be reported to the Audit Committee.

The main risks to which the Company is exposed are credit, liquidity and market risks. Market risk includes interest rate risk and foreign currency risk. The Company’s exposure to these risks and the way in which it measures and manages these risks are described below:

(a) Credit risk:

The Company takes on exposure to credit risk, which is the risk that its customers, clients or other counterparties will cause a financial loss for the Company by failing to discharge their contractual obligations. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in credit contracts not recognized in the statement of financial position, such as loan commitments. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or group and single related party or group of related counterparties.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

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 Company to similar risks to loans and these are mitigated by the same control policies and processes.

Credit review process

The Company has an established credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations.

(i) Loans and leases:

The Company assesses the probability of default of individual counterparties using internal ratings. Clients of the Company are segmented into five rating classes. The Company's internal rating scale, which is shown below, reflects the range of default probabilities defined for each rating class, via:

Company's rating	Description of the rating
1	Standard
2	Potential Problem Credit
3	Sub-Standard
4	Doubtful
5	Loss

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

The credit quality of loans and lease receivables is as follows:

	2019	2018
	$'000	$'000
	Stage 1	Stage 1
Loans receivable		
Grade 1 - standard	1,013,587	423,624
Loss allowance	(4,003)	(1,625)
Carrying amount	1,009,584	421,999
Lease receivable		
Grade1 – standard	547,951	484,931
Loss allowance	(1,541)	-
Carrying amount	546,410	484,931

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Credit review process (continued)

(ii) Investments in debt securities and resale agreements:

The Company limits its exposure to credit risk associated with investment securities by investing mainly in liquid securities with counterparties that have high credit quality and Government of Jamaica securities.

Credit quality

The Company identifies changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Company supplements this by reviewing changes in bond yields together with available press and regulatory information on issuers.

12-month and lifetime probabilities of default are based on historical data supplied by each credit rating and are recalibrated based on current bond yields. Loss given default (LGD) parameters generally reflect an assumed recovery rate of percent except when the security is credit-impaired, in which case the estimate of loss based on the instrument's current market price and original effective interest rate.

The credit quality of investment securities and resale agreement is as follows:

	2019		2018	
	12-month (ECL)		12-month (ECL)	
Credit rating	Resale agreements	Investments	Resale agreements	Investments
B3	1,091,516	240,482	67,063	139,068
Loss allowance	(6,974)	(1,081)	(585)	(1,101)
	1,084,542	239,401	66,478	137,967

(iii) Cash resources

Cash resources are held with banks and other financial institutions counterparties with 1 ratings.

Impairment has been measured at 12- month expected loss basis and reflects the short maturities of the exposures. The Company considered that cash resources have low credit risk. No impairment allowances was recognised on initial adoption of IFRS 9 and there was no change during the period.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Impairment

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades:

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

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Credit risk grades: (continued)

- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- External data from credit reference agencies, including industry-standard credit scores.
- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has been increased significantly:

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

Credit risk is deemed to increase significantly where the credit rating of a security decreased from grade 1 to grade 3 and the risk grade of loans and lease has moved grade 1 (standards) to grade 3 (sub-standard).

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Company determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Significant increase in credit risk (continued)

Determining whether credit risk has been increased significantly (continued):

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default:

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

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

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company uses a forward-looking score card model to estimate the potential of future economic conditions. It formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 20% and 30% probability of occurring, respectively. Each scenario considers the expected impact of interest rates, unemployment rates, gross domestic product (GDP) and inflation. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in Jamaica, supranational organisations and selected private-sector forecasters.

Measurement of ECL

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

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

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

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

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Impairment (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

Loss allowance

The loss allowance recognised is analysed as follow:

	2019				2018
	Resale agreements	Loans and lease	Investment	Total	
	$'000	$'000	$'000	$'000	$'000
Balance at beginning of year/period	585	1,625	1,101	3,311	2,965
Recognised during the year/period	6,389	3,919	(20)	10,288	346
Balance at September 30, 2019	6,974	5,544	1,081	13,599	3,311

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure to the Company at September 30, 2019 and September 30, 2018, without taking account of any collateral held or other credit enhancements, is as follows:

(1) Credit risk exposures relating to financial assets represent the amounts carried on the statement of financial position.

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(2) Credit risk exposures relating to items not carried on the statement of financial position amount to $171,097,000 (2018: 285,454,000) [see note 26(ii)].

Credit exposure

(i) Loans and leases

The following table summarises the Company's credit exposure for loans and leases at their carrying amounts, as categorised by industry sectors:

	2019 $'000	2018 $'000
Agriculture and fishing	72,070	69,913
Mining, quarrying and processing	84,064	-
Construction	115,800	-
Distribution	234,975	102,913
Manufacturing	248,992	303,595
Personal	255,367	124,588
Professional and other services	530,874	304,126
Electricity, gas & water	14,148	805
	1,556,290	905,940
Interest receivable	5,248	2,614
	1,561,538	908,555
Loss allowance	(5,544)	(1,625)
	1,555,994	906,930

(ii) Debt securities

The following table summarises the Company's credit exposure for debt securities at their carrying amounts, as categorised by issuer (see note 12):

	2019 $'000	2018 $'000
Government of Jamaica and Bank of Jamaica	126,291	128,189
Other financial institutions	10,995	10,879
	137,286	139,068
Less allowance	(1,081)	(1,101)
	136,205	137,967

5. Financial instruments - risk management and fair values (continued)

(a) Credit risk (continued):

Collateral and other credit enhancements held against financial assets

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of different types of collateral. The main types of collateral obtained are mortgages over commercial and residential properties, charges over business assets, such as premises, inventories and accounts receivable, and charges over financial instruments such as debt securities and equities.

Estimates of fair value are based on the value of collateral assessed at the time of granting credit or acquiring other financial assets, and generally are not updated except when a loan (or other financial asset) is individually assessed as impaired. Collateral generally is not held over balances with banks or brokers/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held as at September 30, 2019 and September 30, 2018. On November 7 and 12, 2019, the resale agreements were fully collateralised. As at November 12, 2019, the fair value of such securities was $1,153,000,000.

Management monitors the market value of collateral held during its review of the adequacy of the provision for credit losses and requests additional collateral in accordance with the underlying agreement.

An estimate, made at the time of borrowing, of the fair value of collateral and other security enhancements held against loans to borrowers and others is shown below:

	Loans and advances		Resale agreements	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Neither past due nor impaired financial assets:				
Properties	651,744	347,748	-	-
Debt securities (note 11)	-	-	274,748	69,806
Liens on motor vehicles & equipment	1,110,993	44,579	-	-
Hypothecation of deposits	182,195	142,011	-	-
Total	1,944,932	534,338	274,748	69,806

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The consequence may be failure to meet obligations to repay depositors, fulfil commitments to lend and meet other payment obligations.

5. Financial instruments - risk management and fair values (continued)

(b) Liquidity risk (continued):

Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by treasury personnel, along with the management team, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure funding if required;

(ii) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption of cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

(v) Monitoring liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, 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 and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Company. 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 Company and its exposure to changes in interest rates and exchange rates.

5. Financial instruments - risk management and fair values (continued)

(b) Liquidity risk (continued):

(i) Managing the concentration and profile of debt maturities.

Items carried on the statement of financial position

The tables below present the undiscounted cash flows (both interest and principal) of the Company's financial liabilities based on contractual and expected repayment rights and obligations.

	2019					
	Within 1 month	1 to 3 months	3 to 12 months	No specific maturity	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
Customers' deposits	713,033	677,844	520,410	-	1,911,287	1,901,807
Other liabilities	282,355	-	-	-	282,355	282,355
Total liabilities	995,388	677,844	520,410	-	2,193,642	2,184,162

	2018					
	Within 1 month	1 to 3 months	3 to 12 months	No specific maturity	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
Customers' deposits	704,973	500,454	245,546	139,822	1,590,795	1,582,204
Other liabilities	440,986	-	-	-	440,986	440,986
Total liabilities	1,145,959	500,454	245,546	139,822	2,031,781	2,023,190

Items not carried on the statement of financial position

The tables below show the contractual expiry by maturity of the Company's loans and lease commitments and guarantees.

	2019 No later than 1 year	2018 No later than 1 year
	$'000	$'000
Guarantees	1,097	1,097
Loans and leases	170,000	284,357
	171,097	285,454

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with BOJ, investment securities and loans and advances to customers. In the normal course of business, debt securities have been pledged to secure liabilities. The Company is also able to meet unexpected net cash outflows by selling securities and accessing additional funding from its parent company and other financial institutions.

5. Financial instruments - risk management and fair values (continued)

(c) Market risk:

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arises from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Executive Committee which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

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

(i) Currency risk:

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

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

The tables below set out the Jamaica dollar equivalent of the Company's exposure to foreign exchange rate risk at September 30, 2019 and September 30, 2018.

	2019				
	USD	GBP	CAN	EURO	TOTAL
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash resources	384,825	2,051	52,568	73,254	512,698
Resale agreements	341,413	-	-	-	341,413
Investment securities	117,940	-	-	-	117,940
Loans receivable	148,621	-	-	-	148,621
Other assets	23,446	-	71,267	-	94,713
Total financial assets	1,016,245	2,051	123,835	73,254	1,215,385
Financial liabilities					
Customers' deposits	805,838	887	-	-	806,725
Other liabilities	20,272	-	122,172	72,675	215,119
Total financial liabilities	826,110	887	122,172	72,675	1,021,844
Net position	190,135	1,164	1,663	579	193,541

5. Financial instruments - risk management and fair values (continued)

(c) Market risk (continued)

(i) Currency risk (continued):

	2018				
	USD $'000	GBP $'000	CAN $'000	EURO $'000	TOTAL $'000
Financial assets					
Cash resources	773,736	2,714	103	80	776,633
Resale agreements	67,030	-	-	-	67,030
Investment securities	116,632	-	-	-	116,632
Loans receivable	142,011	-	-	-	142,011
Other assets	19,242	1	-	-	19,243
Total financial assets	1,118,651	2,715	103	80	1,121,549
Financial liabilities					
Customers' deposits	546,335	1,352	-	-	547,687
Other liabilities	397,531	-	-	-	397,531
Total financial liabilities	943,866	1,352	-	-	945,218
Net position	174,785	1,363	103	80	176,331

Sensitivity to foreign exchange rate movements

The following table indicates the currency to which the Company had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The change in currency rates below represents management's assessment of the reasonably possible change in foreign exchange rates at the reporting date. The sensitivity analysis presents the effect of adjusting foreign currency denominated monetary items at the reporting date for a 6% increase and a 4% decrease (2018: 4% increase and a 2% decrease) in foreign currency exchange 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 variables, each variable had to be considered on an individual basis. There was no change in the basis of calculation from the previous reporting date.

	2019		2018	
	% Change in currency rate	Effect on profit before income tax $'000	% Change in currency rate	Effect on profit before income tax $'000
Currency:				
USD	6%	11,408	4%	6,991
USD	-4%	(7,605)	-2%	(3,496)

The change in foreign currency exchange would not affect the carrying value of the Company's financial instruments as they are not carried at fair value.

5. Financial instruments - risk management and fair values (continued)

(c) Market risk (continued)

(ii) Interest rate risk:

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The Company'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. The Executive Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the management team and treasury personnel.

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

	2019						
	Within 1 month $’000	1 to 3 months $’000	3 to 12 months $’000	1 to 5 years $’000	Over 5 years $’000	Non interest bearing $’000	Total $’000
Financial assets:							
Cash resources	562,911	-	-	-	-	197,107	760,018
Resale agreement	-	-	-	71,411	1,013,131	-	1,084,542
Investment securities	114,191	-	62,786	-	62,424	-	239,401
Loans receivable	-	1,009,584	-	-	-	-	1,009,584
Net investment in leases	-	546,410	-	-	-	-	546,410
Other assets	-	-	-	-	-	405,470	405,470
Total financial assets	677,102	1,555,994	62,786	71,411	1,075,555	602,577	4,045,425
Financial liabilities:							
Customers’ deposits	712,347	674,159	377,837	-	137,463	-	1,901,806
Other liabilities	-	-	-	-	-	282,355	282,355
Total financial liabilities	712,347	674,159	377,837	-	137,463	282,355	2,184,161
Total liquidity gap	**(35,245)**	**881,835**	**(315,051)**	**71,411**	**938,092**	**320,222**	**1,861,264**
Cumulative gap	**(35,245)**	**846,590**	**531,539**	**602,950**	**1,541,042**	**1,861,264**	**-**

5. Financial instruments - risk management and fair values (continued)

(c) Market risk (continued):

(ii) Interest rate risk (continued):

	2018						
	Within 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000
Financial assets:							
Cash resources	766,615	-	-	-	-	336,118	1,102,733
Resale agreement	66,478	-	-	-	-	-	66,478
Investment securities	-	10,890	506	126,571	-	-	137,967
Loans receivable	-	421,999	-	-	-	-	421,999
Net investment in leases	-	484,931	-	-	-	-	484,931
Other assets	-	-	-	-	-	24,208	24,208
Total financial assets	833,093	917,820	506	126,571	-	360,326	2,238,316
Financial liabilities:							
Customer's deposits	704,126	496,716	241,627	-	139,735	-	1,582,204
Other liabilities	-	-	-	-	-	440,986	440,986
Total financial liabilities	704,126	496,716	241,627	-	139,735	440,986	2,023,190
Total liquidity gap	128,967	421,104	(241,121)	126,571	(139,735)	(80,660)	215,126
Cumulative gap	128,967	550,071	308,950	435,521	295,786	215,126	-

Sensitivity to interest rate movements

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Company's profit before taxation.

The sensitivity of the profit before taxation is the effect of the assumed changes in interest rates on net income based on floating rate financial assets and financial liabilities. 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 variables, variables had to be considered on an individual basis. It should be noted that movements in these variables are non-linear.

2019		2018	
Change in basis points USD/JMD	Effect on profit before taxation (net) $'000	Change in basis points USD/JMD	Effect on profit before taxation (net) $'000
-100/-100	9,871	-100/-100	10,192
+100/+100	(9,871)	+100/+100	(10,192)

5. Financial instruments - risk management and fair values (continued)

(c) Capital management:

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

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

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

(iii) To maintain a strong capital base to support the development of its business. Capital adequacy and the use of regulatory capital are monitored monthly by the Company's management, employing techniques based on the guidelines developed by the Basel II Committee as implemented by BOJ. The required information is filed with BOJ on a quarterly basis.

BOJ requires each financial institution to:

(i) Maintain a ratio of Tier 1 capital to total assets of 6%; and

(ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The Company's regulatory capital as managed by the Executive Committee is divided into two tiers:

(i) Tier 1 capital: share capital, reserve fund and reserves created by appropriations of retained earnings; and

(ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of Government securities and equity instruments held as available-for-sale.

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 table below summarises the composition of regulatory capital and the ratios for the period and year ended September 30, 2019 and September 30, 2018:

	2019 $'000	2018 $'000
Tier 1 capital	1,969,506	301,941
Tier 2 capital	15,563	9,059
Total regulatory capital	1,985,069	311,000

5. Financial instruments - risk management and fair values (continued)

(d) Capital management (continued):

(ii) (Continued)

	2019 $'000	2018 $'000
Risk-weighted assets:		
On-statement of financial position	2,161,445	1,064,404
Off-statement of financial position	171,097	285,454
Total risk-weighted assets	2,332,542	1,349,858
Tier 1 capital to total assets:		
Actual ratio	47.44%	12.93%
Required ratio	10.00%	10.00%

	2019 $'000	2018 $'000
Total regulatory capital to risk-weighted assets:		
Actual ratio	85.18%	23.04%
Required ratio	10.00%	10.00%

The Company was in compliance with the externally imposed capital requirement.

(e) Fair value of financial instruments:

(i) Definition and measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Company using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the

Company uses observable data as far as possible. Fair values are categorized into different levels in a three-tier fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

Fair value hierarchy: The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

5. Financial instruments - risk management and fair values (continued)

(e) Fair value of financial instruments:

(i) Definition and measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Company using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the

Company uses observable data as far as possible. Fair values are categorized into different levels in a three-tier fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

Fair value hierarchy: The different levels in the hierarchy have been defined as follows:

Level 1: Financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

Level 2: Financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3: Financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

Where fair value approximates the carrying value of financial instruments due to their short-term nature, no fair value disclosure is made.

5. Financial instruments - risk management and fair values (continued)

(e) Fair value of financial instruments (continued):

(i) Definition and measurement of fair values (continued)

The fair value of cash resources, resale agreements, other assets, customers' deposits, repurchase agreements and other liabilities are assumed to approximate their carrying values due to their short-term nature.

The fair value of loans receivable and net investment in finance leases are assumed to approximate their carrying values as interest rates on these instruments approximate current market rates offered on similar instruments.

(ii) Valuation techniques and significant unobservable inputs:

The following table shows the valuation technique used in measuring fair value in the Level 2 hierarchy, as well as the significant unobservable input used.

Type	**Valuation technique**	**Significant Unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Government of Jamaica securities	• Obtain bid yield from yield curve provided by a recognized pricing source (which uses market-supplied indicative bids) • Using this yield, determine price using accepted formula • Apply price to estimate fair value.	Not applicable	Not applicable
Units held in Unit Trust	• Obtain prices provided by Unit Trust manager	Not applicable	Not applicable

5. Financial instruments - risk management and fair values (continued)

(e) Fair value of financial instruments (continued):

(iii) Accounting classifications and fair values:

The fair value of financial assets and liabilities, together with the carrying amounts and their classifications shown in the statement of financial position, are as follows:

	2019			
	Carrying amount		Fair value	
	FVTPL	Total	Level 2	Total
	$'000	$'000	$'000	$'000
Financial assets measured at fair value:				
Units held in Unit Trust	103,196	103,196	103,196	103,196
Financial assets measured at amortised cost:				
Investments securities	126,591	126,591	123,971	123,971

	2018			
	Carrying amount		Fair value	
	Amortised cost	Total	Level 2	Total
	$'000	$'000	$'000	$'000
Financial assets measured at amortised cost:				
Investments securities	126,929	126,929	125,665	125,665

The Company has not disclosed the fair values of financial instruments not measured at fair value, because their carrying amounts are a reasonable approximation of fair values.

6. Other revenue

	2019	2018
	$'000	$'000
Service fees	15,634	17,861
Other fees	20,982	14,359
Foreign exchange gains, net	51,454	32,748
Gain on termination of leases	12,180	3,924
Miscellaneous	9,623	1,000
	109,873	69,892

7. Staff costs

	2019 $'000	2018 $'000
Salaries and wages	112,061	76,354
Statutory payroll contributions	8,950	5,706
Pension costs (note 25)	3,511	2,105
Other	15,084	8,519
	139,606	92,684

8. Other non-interest expenses

	2019 $'000	2018 $'000
Auditors' remuneration	4,602	5,114
Depreciation and amortization	5,082	965
Directors' fees	3,380	2,535
Insurance	1,987	1,271
Legal and other professional fees	70,296	10,857
Office rental	15,668	9,627
Other	34,371	18,932
Registration and license	9,949	6,016
Royalties	4,653	2,870
	149,988	58,187

9. Income tax

(a) Income tax is computed at 33⅓% of the loss for the year/period, as adjusted for taxation purposes, and comprises:

	2019 $'000	2018 $'000
Current income tax:		
Provision for charge on loss for the year/period	-	-
Deferred income tax (note 17)		
Tax effect of unused tax losses	(51,421)	(19,287)
Origination and reversal of temporary differences	29,424	1,885
	(21,997)	(17,402)

9. Income tax (continued)

(b) Reconciliation of expected tax charge to effective tax charge:

	2019 $'000	2018 $'000
Loss before income tax	(107,580)	(40,875)
Expected tax credit calculated at 33⅓	(35,860)	(13,625)
Adjusted for the effects of:		
Gain on sale of leases, not subject to tax	(4,060)	(1,308)
Net effect of other allowances and charges	17,923	(2,469)
Actual income tax charge	(21,997)	(17,402)

(c) Taxation losses, subject to agreement by the Commissioner General, Taxpayer Administration Jamaica, available for relief against future taxable profits, amounted to approximately $280,346,000 (2018: $129,912,000). The maximum amount of the losses that can be utilised in any one year is restricted to 50% of the taxable profit for that year.

10. Cash resources

(a) Statutory reserves with Bank of Jamaica (BOJ):

Statutory reserves with BOJ, as required under Section 43 of the Banking Services Act (which replaced Section 14(i) of the Financial Institutions Act), and in accordance with the terms of the licence, are held at BOJ as a cash reserve. Accordingly, these amounts are not available for investment or other use by the Company. The reserves represent 7% and 15% (2018: 12% and 15%) of the Company's prescribed Jamaica dollar and foreign currency liabilities, respectively. The Jamaica dollar reserve is held on a non-interest-bearing basis, while the foreign currency reserve earns interest at variable rates, with a weighted average interest rate at the reporting date of 0.00% (2018: 0.00%).

There are mandatory reserve deposits held with the BOJ in accordance with statutory requirements. These deposits are not available to finance the Company's day to day operations.

	Asset	
	2019 $'000	2018 $'000
Statutory reserves with BOJ	194,832	201,006

10. Cash resources (continued)

(b) Amounts due from other banks and cash in hand:

	2019 $'000	2018 $'000
Notes, coins and money at BOJ	298,628	336,124
Less: Statutory reserves with BOJ	(194,832)	(201,006)
	103,796	135,118
Accounts with other banks- Foreign currency denominated	387,428	700,373
Accounts with other banks- Jamaica dollar denominated	73,962	66,236
	565,186	901,727

(c) Cash and cash equivalents comprised the following for the purposes of the statement of cash flows:

	2019 $'000	2018 $'000
Amounts due from other banks and cash in hand	565,186	901,727
Certificates of deposit (note 12)	10,995	10,879
Resale agreements (note 11)	1,083,419	66,445
	1,659,600	979,051

11. Resale agreements

The Company enters into resale agreements collateralised by Government of Jamaica securities. These agreements result in credit exposure in that the counterparty to the transaction may be unable or unwilling to fulfill its contractual obligations. The amounts are made up as follows:

	2019 $'000	2018 $'000
Principal	1,090,393	67,030
Less impairment allowance	(6,974)	(585)
	1,083,419	66,445
Accrued interest receivable	1,123	33
	1,084,542	66,478

For the purposes of the statement of cash flows, an amount of $1,083,419,000 (2018: $66,445,000) is included in cash and cash equivalents [note 10(c)].

The fair value of securities held by the Company as collateral for resale agreements at the reporting date was $274,747,610 (2018: $69,806,000). As at November 12, 2019, the resale agreements were fully collateralized with securities of fair value amounting to $1,085,710,802 to achieve compliance with section 58 of the Banking Services Act.

12. Investment securities

	2019 $'000	2019 $'000
Financial assets measured at amortised cost:		
Certificates of deposit [note 10(c)]	10,995	10,879
Bank of Jamaica certificates of deposit	63,046	63,508
Government of Jamaica Benchmark Investment Notes	62,006	63,421
Interest accrued	1,239	1,260
	137,286	139,068
Less impairment allowance	(1,081)	(1,101)
	136,205	137,967
Financial assets measured at fair value through profit or loss:		
Units held in unit trust	103,196	-
	239,401	137,967

Certain investment securities with a carrying value of $55,399,000 have been pledged for a $30,000,000 overdraft facility. There were no amounts drawn on the overdraft facility as at September 30, 2019.

13. Loans receivable

	2019 $'000	2018 $'000
Business and Government	754,204	362,814
Personal	254,134	58,196
Interest accrued	5,249	2,614
	1,013,587	423,624
Less impairment losses	(4,003)	(1,625)
	1,009,584	421,999

14. Net investment in finance leases

	2019 $'000	2018 $'000
Total minimum lease payments receivable	633,794	552,438
Less: Unearned income	(85,843)	(67,507)
	547,951	484,931
Less impairment losses	(1,541)	-
Net investment in finance leases	546,410	484,931

14. Net investment in finance leases (continued)

	2019 $'000	2018 $'000
Future minimum lease payments are receivable as follows:		
2019	-	297,128
2020	263,872	141,795
2021	198,227	75,215
2022	86,713	28,977
2023	39,793	7,354
2024	22,097	1,969
2025	16,300	-
2026	6,792	-
	633,794	552,438

Included in the net investment in finance leases is $77,184,400 (2018: $53,390,000) which represents leases to related parties [note 27(c)].

15. Property, plant and equipment

	Leasehold $'000	Motor vehicle $'000	Furniture and equipment $'000	Computer hardware $'000	Total $'000
Cost:					
December 31, 2017	-	-	2,457	9,478	11,935
Additions	-	12,026	1,021	791	13,838
Disposals	-	-	(516)	(1,757)	(2,273)
September 30, 2018	-	12,026	2,962	8,512	23,500
Additions	1,151	-	427	9,257	10,835
September 30, 2019	1,151	12,026	3,389	17,769	34,335
Accumulated depreciation:					
December 31, 2017	-	-	2,102	8,022	10,124
Charge for the period	-	200	87	519	806
Eliminated on disposals	-	-	(516)	(1,757)	(2,273)
September 30, 2018	-	200	1,673	6,784	8,657
Charge for the year	115	2,406	302	2,077	4,900
September 30, 2019	115	2,606	1,975	8,861	13,557
Net book values:					
December 31, 2019	1,036	9,420	1,414	8,908	20,778
September 30, 2018	-	11,826	1,289	1,728	14,843
December 31, 2017	-	-	355	1,456	1,811

16. Other assets

	2019	2018
	$'000	$'000
Intangible assets	89	272
Prepayments, lease advances and other receivables	405,381	23,936
	405,470	24,208

Intangible assets consist of computer software. There was no addition during the current and prior years. Amortisation for the period amounted to $182,000 (2018: $159,000).

17. Deferred tax asset

Deferred tax asset is calculated on all temporary differences using the tax rate of 33⅓%. The items giving rise to the deferred tax asset and the movements on the account are as follows:

	2017	Recognised in income	2018	Recognised in income	2019
	$'000	$'000 (note 9)	$'000	$'000 (note 9)	$'000
Deferred tax asset:					
Property plant and equipment	40,742	(1,183)	39,559	(26,505)	13,054
Accrued vacation	850	-	850	-	850
Tax losses	22,985	19,287	42,272	51,421	93,693
	64,577	18,104	82,681	24,916	107,597
Deferred tax liability:					
Unrealised exchange gains/(losses)	305	(1,064)	(759)	(752)	(1,511)
Allowance for loan losses	(3,382)	362	(3,020)	(2,167)	(5,187)
	(3,077)	(702)	(3,779)	(2,919)	(6,698)
Net deferred tax asset	61,500	17,402	78,902	21,997	100,899

18. Customers' deposits

	2019	2018
	$'000	$'000
Personal	410,894	340,526
Other	1,479,539	1,230,595
	1,890,433	1,571,121
Interest payable	11,374	11,083
	1,901,807	1,582,204

19. Other liabilities

	2019 $'000	2018 $'000
Advance from parent company [note 27 (c)]	24,045	391,170
Other	258,310	49,816
	282,355	440,986

20. Share capital

	2019 $'000	2018 $'000
Authorised -		
20,000,000 ordinary shares of no par value		
10,000,000 20% Non-cumulative preference shares of no par value		
1,600,000 5% Non-cumulative US$ preference shares		
14,500,000 5% JMD non-cumulative preference shares		
Issued and fully paid -		
17,000,000 ordinary shares	17,000	17,000
8,000,000 20% Non-cumulative preference shares	8,000	8,000
14,100,000 5% Non-cumulative preference shares	1,762,780	-
1,600,000 5% Non-cumulative US$ preference Shares	206,720	206,720
	1,994,500	231,720

(i) The holders of ordinary shares are entitled to one vote per share at meetings of the Company and to receive dividends as declared from time to time.

(ii) The preference shares are not redeemable. The holders of the preference shares have the right to a fixed non-cumulative preferential dividend [at a rate fixed from time to time by resolution of the directors, currently fixed at 20% and 5% respectively (2018: 20% and 5%,) per annum]; in the event of the Company being wound up, to have the amount paid up on the preference shares repaid in priority to repayment of ordinary shares; and at any time after December 2003, to request conversion of each preference share for one ordinary share. Further, the preference shareholders are not entitled to receive notice of, or to attend, general meetings of the Company.

(iii) Resolutions were passed at these Extraordinary General Meetings (see below) to increase the issued share capital of the Company. The issued share capital are all 5% non-cumulative non-redeemable preference shares

November 21, 2018	2,500,000	312,779,750
May 13, 2019	5,600,000	700,000,000
September 27, 2019	6,000,000	750,000,000
		$1,762,779,750

21. Reserve fund

Under Section 41 of the Banking Services Act, the Company is required to make an annual transfer of 15% of the net profit for the year/period to a reserve fund ("the Fund") until the amount in the Fund is equal to at least 50% of the paid up share capital and thereafter, a minimum of 10% until the amount in the Fund is at least equal to the paid up share capital. There was no transfer for the current year as the Company made a loss.

22. Retained earnings reserve

Section 42 of The Banking Services Act permits the transfer of any portion of net profit to a retained earnings reserve, at the discretion of the directors; however, they must notify Bank of Jamaica for the transfer to be effective, and any transfer from this reserve must be approved by Bank of Jamaica. No transfer to this reserve was made during the year.

This reserve constitutes a part of the capital base for the purpose of, *inter alia*, determining the maximum level of deposit liabilities and lending to customers.

23. Loan loss reserve

The loan loss reserve is a non-distributable reserve which represents the excess of the provision for losses on loans and leases as determined using the Bank of Jamaica's regulatory requirements over the amounts determined under IFRS.

24. Dividends

There were no dividends declared for 2019 or 2018.

25. Pension plan

On May 19, 2015 the Trustees of the Retirement Plan for the Employees of Seramco Limited and related companies wound up that pension plan effective October 31, 2015, and transferred employees' past service benefits to a new defined contribution approved superannuation fund. Approval was received from the Financial Services Commission and contributions to the new defined contribution superannuation fund commenced on November 1, 2015 at an agreed rate of 5%.

The Company's contributions for the year was $3,511,000 (2018: $2,105,000) (note 7).

26. Commitments

(i) Leases

Contractual amounts of commitment, under non-cancellable operating lease, payable under a lease agreement are as follows:

	2019 $'000	2018 $'000
Within a year	2,657	9,626
Subsequent years	-	2,657
	2,657	12,283

(ii) Other commitments

	2019 $'000	2018 $'000
Loans and leases [see (a)]	170,000	284,357
Guarantees [see (b)]	1,097	1,097
	171,097	285,454

(a) This represents loans and leases approved but not yet disbursed to customers at the reporting date.

(b) This represents contractual amounts of financial instruments not carried on the statement of financial position that commit the Company to extend credit to customers. Guarantees are only offered on a cash secured basis to customers therefore limiting any risk of credit losses.

27. Related party transactions and balances

In the ordinary course of business, the Company provides normal services to its connected persons on terms similar to those offered to persons not connected to the Company.

(a) Definition of a related party:

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

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

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

(2) has significant influence over the Company; or

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

27. Related party transactions and balances (continued)

(a) Definition of a related party (continued):

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

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

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

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

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

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

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

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

(b) Identity of related parties

The Company has a related party relationship with its parent company (note 1), other related companies, directors, key management personnel, and the pension plan.

(c) The statement of financial position includes the following assets/(liabilities) with related parties:

	2019 $'000	2018 $'000
Owners:		
Loans recoverable	-	142,011
Net investment in finance lease	-	1,785
Other assets	7,556	17
Other liabilities	(24,045)	(391,170)
Deposits	(11,802)	(623,873)

27. Related party transactions and balances (continued)

(c) The statement of financial position includes the following assets/(liabilities) with related parties (continued):

	2019 $'000	2018 $'000
Other related parties:		
Resale agreements	884,142	-
Investments	103,196	-
Deposits	(76,858)	(298,220)
Loans recoverable	65,417	6,000
Net investment in finance lease	79,840	55,390
Other assets	17,795	4,598
Other liabilities	-	(4,760)
Directors and key management personnel:		
Loans receivable	45,000	1,128
Deposits	(20,137)	(587)
Other assets	-	-
Other liabilities	-	(3,911)

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

	2019 $'000	2018 $'000
Owners:		
Interest income – loans	877	7,663
Interest income –leases	-	315
	877	7,978
Interest expense	(5,946)	(6,469)
Legal and other professional fees	-	(251)
	(5,946)	(6,720)
Other related parties:		
Service fees	9,920	13,500
Rent	(5,348)	(9,627)
Royalties	(1,064)	(2,870)
	(3,508)	(1,003)
Interest income - Net investment in finance lease	8,189	5,128
Interest expense	-	(1,868)
Directors and other key management personnel:		
Interest income	1,167	13
Interest expense	(41)	(3)
Directors' fees	(3,380)	(2,535)

27. Related party transactions and balances (continued)

	2019	2018
	$'000	$'000
(e) Key management compensation:		
Salaries and other short-term employee benefits	(48,511)	(41,961)
Statutory payroll contributions	(2,335)	(3,594)
	(50,846)	(45,555)

28. Assets held in custodial trust

The Company had assets held in trust, which are not beneficially owned by the Company, but for which the Company has responsibility in accordance with the trust agreements. The net asset value of these trust holdings, which has been excluded from the statement of financial position was $34,973,750,000, (2018: $30,677,553,000).

29. Subsequent event

On October 7, 2019 the capital of the Company was increased by J$1,000,000,000, by the creation of an additional 400,000 5% Non-cumulative Non-redeemable Preference Shares which were fully allotted.