CORNERSTONE TRUST & MERCHANT BANK LIMITED

FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
CORNERSTONE TRUST & MERCHANT BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cornerstone Trust & Merchant Bank Limited ("the Company"), set out on pages 5 to 66, which comprise the statement of financial position as at September 30, 2020, 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, 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (Continued)

To the Members of
CORNERSTONE TRUST & MERCHANT BANK 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

Report on the Audit of the Financial Statements (Continued)

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

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

- 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

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 29, 2020

CORNERSTONE TRUST & MERCHANT BANK LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
Net interest income and other revenue			
Interest income calculated using the effective interest method			
Interest income on investment and resale agreements		76,137	10,410
Interest income on loans and bank deposits		104,334	65,959
Other interest income			
Interest income on leases		45,301	55,788
Total interest income		225,772	132,157
Interest expense on deposits		(52,510)	(49,728)
Interest expense on securities sold under repurchase agreements		(4,687)	-
Net interest income		168,575	82,429
Other revenue	7	120,274	109,873
Net interest income and other revenue		288,849	192,302
Non-interest expenses			
Staff costs	8	(148,530)	(139,606)
Impairment recoveries /(losses) on financial assets	6(a)	4,091	(10,288)
Other	9	(92,508)	(149,988)
		(236,947)	(299,882)
Profit/(loss) before income tax		51,902	(107,580)
Income tax	10	(5,804)	21,997
Net profit/(loss) for the year		46,098	(85,583)
Other comprehensive income			
Unrealised gain on investment securities at fair value through other comprehensive, being total other comprehensive, net of tax		5,935	-
Total comprehensive income/(loss) for the year		52,033	(85,583)

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED

Statement of Financial Position
September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
ASSETS			
Cash resources			
Statutory reserves with Bank of Jamaica	11(a)	157,132	194,832
Amounts due from banks and cash in hand	11(b)	1,083,956	565,186
		1,241,088	760,018
Resale agreements	12	1,458,357	1,084,542
Investment securities	13	1,249,893	239,401
Loans receivable	14	1,272,676	1,009,584
Net investment in finance leases	15	440,392	546,410
Property, plant and equipment	16	20,453	20,778
Other assets	17	74,457	405,470
Deferred tax asset	18	93,318	100,899
Right-of-use assets	19	26,208	-
Tax recoverable		2,090	2,129
Total assets		5,878,932	4,169,231
LIABILITIES			
Customers' deposits	20	1,798,851	1,901,807
Other liabilities	21	42,938	282,355
Lease liabilities	19	26,031	-
Securities sold under repurchase agreement	22	497,010	-
Total liabilities		2,364,830	2,184,162
EQUITY			
Share capital	23	3,471,500	1,994,500
Reserve fund	24	64,001	59,945
Retained earnings reserve	25	65,000	65,000
Loan loss reserve	26	16,705	15,563
Fair value reserve	27	5,935	-
Accumulated deficit		(109,039)	(149,939)
Total equity		3,514,102	1,985,069
Total liabilities and equity		5,878,932	4,169,231

The financial statements on pages 5 to 66 were approved for issue by the Board of Directors on December 24, 2020 and signed on its behalf by:

Arnold Aiken ____________ Director

Paul Simpson ____________ Director

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED

Statement of Changes in Equity
Year ended September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

	Share capital $'000 (note 23)	Reserve fund $'000 (note 24)	Retained earnings reserve $'000 (note 25)	Loan loss reserve $'000 (note 26)	Fair value reserve $'000 (note 27)	Accumulated deficit $'000	Total $'000
Balances at October 1, 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 26)	-	-	-	6,504	-	(6,504)	-
Shares issued [note 23(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**
Total comprehensive income:							
Profit for the year	-	-	-	-	-	46,098	46,098
Other comprehensive income:							
Unrealised net gains on investment securities at FVOCI, net of expected credit losses and tax	-	-	-	-	5,935	-	5,935
Total comprehensive income for the year	-	-	-	-	5,935	46,098	52,033
Movement between reserves:							
Transfer to loan loss reserve (note 26)	-	-	-	1,142	-	(1,142)	-
Transfer to reserve fund	-	4,056	-	-	-	(4,056)	-
Shares issued [note 23(iii)]	1,500,000	-	-	-	-	-	1,500,000
Share issue cost [note 23(iii)]	(23,000)	-	-	-	-	-	(23,000)
Balances at September 30, 2020	**3,471,500**	**64,001**	**65,000**	**16,705**	**5,935**	**(109,039)**	**3,514,102**

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

CORNERSTONE TRUST & MERCHANT BANK LIMITED

Statement of Cash Flows
Year ended September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Profit/(Loss) for the year		46,098	(85,583)
Adjustments for:			
Depreciation	16,19	8,388	4,900
Impairment losses on financial instruments	6(a)	(4,091)	10,288
Amortisation of software	17	258	182
Interest income		(225,772)	(132,157)
Interest expense		57,709	49,728
Income tax	10	5,804	(21,997)
Unrealised gain on foreign currency assets and liabilities		(33,258)	(16,196)
		(144,864)	(190,835)
Changes in operating assets and liabilities			
Statutory reserves with central bank		37,700	6,174
Net investment in leases		106,018	(63,019)
Customers' deposits, net		(103,084)	318,977
Securities sold under repurchase agreements, net		498,519	-
Loans, net		(260,593)	(587,242)
Other assets		330,756	(362,205)
Other liabilities		(239,417)	(182,674)
Due from related party		-	6,250
		225,035	(1,054,574)
Interest received		198,592	128,454
Interest paid		(55,816)	(49,437)
Net cash provided by/(used in) operating activities		367,811	(975,557)
Cash flows from investing activities			
Investments, net		(938,440)	(110,181)
Purchase of property, plant and equipment	16	(6,439)	(10,835)
Net cash used in investing activities		(944,879)	(121,016)
Cash flows from financing activity			
Issue of shares, being net cash provided by financing activities		1,477,000	1,759,652
Payment of lease liabilities	19(iii)	(2,136)	-
		1,474,864	1,759,652
Effect of exchange rate changes on cash and cash equivalents		40,599	17,470
Net increase in cash and cash equivalents for year		938,395	680,549
Cash and cash equivalents at beginning of year		1,659,600	979,051
Cash and cash equivalents at end of year	11(c)	2,597,995	1,659,600

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

1. Identification

Cornerstone Trust and Merchant Bank 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 17 St. Lucia Way, Kingston, Jamaica and its principal activities are accepting deposits and granting loans and finance leasing.

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 Holdings Limited ("Merban") and Levas Limited ("Levas"), which are 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).

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"). This is the first set of the Company's annual financial statements in which IFRS 16, *Leases* has been applied. The changes to significant accounting policies are described in note 5.

(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.

(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.

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 (continued):

(2) 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.

(3) Fair value of financial instruments

In the absence of quoted market prices, the fair value of certain of the company's financial instruments was determined by surveying market participants to obtain indicative prices.

Considerable judgement is required in interpreting market data to arrive at estimates of fair value or in interpreting market data to arrive at estimates of fair value or in selecting inputs for price estimation models, particularly since pricing inputs include data not observed in actual market transactions but indicative information. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

(4) 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 and securities sold under repurchase agreements.

(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.

Other 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 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).

4. Significant accounting policies (continued)

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

(ii) Classification and subsequent measurement (continued)

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).

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.

4. Significant accounting policies (continued)

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

(ii) Classification and subsequent measurement (continued)

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

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.

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.

4. Significant accounting policies (continued)

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

(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.

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.

4. Significant accounting policies (continued)

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

(vi) Offsetting (continued):

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.

(vii) 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 and repurchase agreements:

Transactions involving purchases of securities under resale agreements ('resale agreements' or 'reverse repos') or sales of securities under repurchase agreements ('repurchase agreements' or 'repos') are accounted for as short-term collateralized lending and borrowing, respectively and measured at amortised cost. Accordingly, securities sold under repurchase agreements remain on the statement of financial position and are measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are carried at amortized cost. Securities purchased under resale agreements are reported not as purchases of the securities, but as receivables and are carried at amortized cost. It is the policy of the branch to obtain possession of collateral with a fair value in excess of the principal amount loaned under resale agreements.

The difference between the amount borrowed or invested and the amount repaid or collected is recognized as interest expense or interest income, respectively, in profit or loss 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. Significant accounting policies (continued)

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

(vii) Specific financial instruments (continued):

(4) Equity instruments

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

- The Company measures all equity investments at fair value through profit or loss

- Gains and losses on equity investments at FVTPL are included in the 'Other revenue' line in the statement of profit or loss.

(5) Other assets:

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

(6) Other liabilities:

Other liabilities are measured at cost or amortised cost.

(7) Customers' deposits:

Customers' deposits are measured at amortised cost.

(8) 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.

4. Significant accounting policies (continued)

(b) Leases:

Policy applicable from October 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after October 1, 2019.

(i) As a lessee

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

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

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

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

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

4. Significant accounting policies (continued)

(b) Leases (continued):

Policy applicable from October 1, 2019

(i) As a lessee (continued)

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

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

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

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

Short-term leases

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

Policy applicable before October 1, 2019

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

4. Significant accounting policies (continued)

(b) Leases (continued):

(ii) As lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is finance lease or an operating lease.

To classify the lease, the company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

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

(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.

4. Significant accounting policies (continued)

(c) Interest income (continued):

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.

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.

4. Significant accounting policies (continued)

(d) Fees and commission income (continued):

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 (continued):

Type of service	*Nature and timing of satisfaction of performance obligations, including significant payment terms.*	*Revenue recognition under IFRS 15.*
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.

(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.

4. Significant accounting policies (continued)

(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.

(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(j).

(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’.

4. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

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’.

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)

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.

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.

4. Significant accounting policies (continued)

(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.

(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.

4. Significant accounting policies (continued)

(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 with Seramco Limited, which replaced a prior defined-benefit pension scheme.

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 29).

(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.

4. Significant accounting policies (continued)

(n) Income tax (continued):

(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.

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 these financial statements, certain new and amended standards and interpretations have been issued which are not yet effective and have not been early-adopted by the Company. The Company has assessed them and determined that the following are relevant:

- 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.

4. Significant accounting policies (continued)

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

- Amendments to *References to Conceptual Framework in IFRS Standards (continued)*

  The main change relates to how and when assets and liabilities are recognised and derecognised 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 derecognition will allow an entity to derecognise 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 the following definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements:

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

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

- Amendment to IAS 1, *Presentation of Financial Statements* is effective for annual periods beginning on or after January 1, 2022 but with a possible deferral to January 1, 2023. An entity classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. The amendment clarifies that a right to defer exists only if the entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date. The settlement of a liability includes transferring a company's own equity instruments to the counterparty.

  The Company is assessing the impact that the amendment will have on its 2023 or 2024 financial statements.

5. Changes in significant accounting policies

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

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

(i) Definition of a lease

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

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

(ii) As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on balance sheet (note 19).

Leases classified as operating leases under IAS 17

Previously, the Company classified leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at October 1, 2019 (see note 19). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

5. Changes in significant accounting policies (continued)

(ii) As a lessee (continued)

Leases classified as operating leases under IAS 17 (continued)

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

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

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

– used hindsight when determining the lease term.

(iii) Impact on transition

On transition to IFRS 16, the Company recognised no right-of-use assets or lease liabilities. The impact on transition is summarised below.

	October 1, 2019 $'000
Operating lease commitment at September 30, 2019 as disclosed under IAS 17 in the Company's financial statements	2,567
Recognised exemption for lease with less than 12 months of lease term at transition	(2,567)
Lease liabilities recognised at October 1, 2019	-

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at October 1, 2019. The weighted average rate applied is 7.50%.

(iv) As a lessor

The Company leases certain assets, there are classified as finance leases.

The Company is not required to make any adjustments on transition to IFRS 16 for lease in which it acts as lessor.

6. 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.

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

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.

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.

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

(a) Credit risk (continued):

Credit review process (continued)

(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:

	2020				
	Stage 1	Stage 2	Stage 3	Total	2019
	$'000	$'000	$'000	$'000	$'000
Loans receivable					
Standard	1,210,206	-	-	1,210,206	1,013,587
Potential problem credit	-	13,434	-	13,434	-
Substandard	-	-	55,066	55,066	-
	1,210,206	13,434	55,066	1,278,706	1,013,587
Loss allowance	(5,690)	(160)	(180)	(6,030)	(4,003)
	1,204,516	13,274	54,886	1,272,676	1,009,584

	2020	2019
	$'000	$'000
Lease receivable		
Standard	440,556	547,951
Loss allowance	(164)	(1,541)
	440,392	546,410

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

(a) Credit risk (continued):

Credit review process

(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:

	2020		2019	
	12-month (ECL)		12-month (ECL)	
	Resale Agreements	Investments	Resale Agreements	Investments
	$'000	$'000	$'000	$'000
Credit rating				
B+	1,458,500	1,249,893	1,091,516	240,482
Loss allowance	(143)	-	(6,974)	(1,081)
	1,458,357	1,249,893	1,084,542	239,401

(iii) Cash resources

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

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.

6. 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.

6. 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:

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 (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.

6. 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.

6. 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)

Definition of default

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.

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

(a) Credit risk (continued):

Impairment (continued)

Measurement of ECL

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:

	2020				
	Resale agreements	Loans and leases	Investments at amortised cost	Debt securities at FVOCI	Total
	$'000	$'000	$'000	$'000	$'000
Balance at beginning of year	6,974	5,544	1,081	-	13,599
New financial assets purchased	143	-	-	3,171	3,314
Net remeasurement during the year	-	650	-	-	650
Financial assets derecognised	(6,974)	-	(1,081)	-	(8,055)
Balance at September 30, 2020	143	6,194	-	3,171	9,508

	2019			
	Resale agreements	Loans and leases	Investment	Total
	$'000	$'000	$'000	$'000
Balance at beginning of year	585	1,625	1,101	3,311
Recognitions during the year	6,389	3,919	(20)	10,288
Balance at September 30, 2020	6,974	5,544	1,081	13,599

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

(a) Credit risk (continued):

Impairment (continued)

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

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

Credit risk exposure to the Company at September 30, 2020 and September 30, 2019, 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.

(2) Credit risk exposures relating to items not carried on the statement of financial position amount to $33,431,000 (2019: $171,097,000) [see note 30].

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:

	2020 $'000	2019 $'000
Agriculture and fishing	118,746	72,070
Mining, quarrying and processing	100,363	84,064
Construction	75,778	115,800
Distribution	155,624	234,975
Manufacturing	229,064	248,992
Personal	563,684	255,367
Professional and other services	415,189	530,874
Electricity, gas & water	53,068	14,148
	1,711,516	1,556,290
Interest receivable	7,746	5,248
	1,719,262	1,561,538
Loss allowance	(6,194)	(5,544)
	1,713,068	1,555,994

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

(a) Credit risk (continued):

Impairment (continued)

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

Credit exposure (continued)

(ii) Debt securities

The following table summarises the Company's credit exposure for debt securities at their carrying amounts, as categorised by issuer (see notes 11 and 13):

	2020 $'000	2019 $'000
Government of Jamaica and Bank of Jamaica	139,448	126,291
Corporate bonds	965,256	-
Other financial institutions	1,514,039	1,094,414
	2,618,743	1,220,705
Less, loss allowance	-	(1,081)
	2,618,743	1,219,624

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, 2020 and September 30, 2019. All resale agreements were fully collateralised as at September 30, 2020. The fair value of such securities was $1,532,800,000 (2019: $274,748,000). In the prior year, the fair value of securities was increased to $1,085,710,802 as at November 12, 2019 (note 12).

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.

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

(a) Credit risk (continued):

Collateral and other credit enhancements held against financial assets

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	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Neither past due nor impaired financial assets:				
Properties	2,022,379	651,744	-	-
Debt securities (note 12)	-	-	1,525,509	274,748
Liens on motor vehicles & equipment	1,352,735	1,110,993	-	-
Hypothecation of deposits	41,016	182,195	-	-
Total	3,416,130	1,944,932	1,525,509	274,748

(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.

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

Notes to the Financial Statements (Continued)
September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

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

(b) Liquidity risk (continued):

Liquidity risk management process (continued)

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

(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.

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.

	2020						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Customers' deposits	-	1,077,945	728,192	1,617	-	1,807,754	1,798,851
Securities sold under repurchase agreement	-	355,906	143,374	-	-	499,280	497,010
Lease liabilities	162	330	1,363	12,516	11,660	26,031	26,031
Other liabilities	42,938	-	-	-	-	42,938	42,938
Total liabilities	43,100	1,434,181	872,929	14,133	11,660	2,376,003	2,364,830

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

(b) Liquidity risk (continued):

Items carried on the statement of financial position (continued)

	2019				
	Within 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	Contractual cash flows $'000	Carrying amount $'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

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.

	2020 No later than 1 year $'000	2019 No later than 1 year $'000
Guarantees	1,097	1,097
Loans and leases	32,334	170,000
	33,431	171,097

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.

(b) 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.

Notes to the Financial Statements (Continued)
September 30, 2020
(Expressed in Jamaica dollars unless otherwise indicated)

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

(c) Market risk (continued):

(i) Currency risk (continued):

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, 2020 and September 30, 2019.

	2020				
	USD $'000	GBP $'000	CAN $'000	EURO $'000	TOTAL $'000
Financial assets					
Cash resources	277,319	2,353	1,934	613	282,219
Resale agreements	144,947	-	-	-	144,947
Investment securities	793,224	-	-	-	793,224
Loans receivable	41,031	-	-	-	41,031
Other assets	12,965	-	-	-	12,965
Total financial assets	1,269,486	2,353	1,934	613	1,274,386
Financial liabilities					
Customers' deposits	865,283	1,002	-	-	866,285
Securities sold under agreements to resell	497,010	-	-	-	497,010
Other liabilities	4,626	-	-	-	4,626
Total financial liabilities	1,366,919	1,002	-	-	1,367,921
Net position	(97,433)	1,351	1,934	613	(93.535)

	2019				
	USD $'000	GBP $'000	CAN $'000	EURO $'000	TOTAL $'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

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

(d) Market risk (continued)

(i) Currency risk (continued):

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 2% decrease (2019: 6% increase and a 4% 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.

	2020		2019	
	% 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%	(5,846)	6%	11,408
USD	-2%	1,979	-4%	(7,605)

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.

(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.

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

(c) Market risk (continued)

(ii) Interest rate risk:

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.

	2020						
	Within 1 month $'000	1 to 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Non interest bearing $'000	Total $'000
Financial assets:							
Cash resources	1,241,088	-	-	-	-	-	1,241,088
Resale agreement	1,113,402	344,955	-	-	-	-	1,458,357
Investment securities	-	11,117	372,510	803,803	-	-	1,187,429
Loans receivable	74,949	5,338	118,249	869,216	204,924	-	1,272,676
Net investment in leases	111	908	27,809	298,376	113,352	-	440,556
Other assets	-	-	-	-	-	74,457	74,457
Total financial assets	2,249,549	362,318	518,568	1,971,395	318,276	74,457	5,674,563
Financial liabilities:							
Customers deposits	-	1,073,814	723,434	1,597	-	-	1,798,845
Repurchase agreement	-	354,707	142,303	-	-	-	497,010
Lease liabilities	162	330	1,363	12,516	11,660	-	26,031
Other liabilities	-	-	-	-	-	42,938	42,938
Total financial Liabilities	162	1,428,851	867,100	14,113	11,660	42,938	2,364,824
Total liquidity gap	**2,429,387**	**(1,066,533)**	**(348,533)**	**1,957,282**	306,616	**31,519**	**3,309,739**
Cumulative gap	**2,429,387**	**1,362,854**	**1,014,321**	**2,971,603**	**3,278,220**	**3,309,739**	**-**

	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**	**-**

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

(c) Market risk (continued):

(ii) Interest rate risk (continued):

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.

2020		2019	
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	8,039	-100/-100	9,871
+100/+100	(8,039)	+100/+100	(9,871)

(d) 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%.

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

(d) Capital management (continued):

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, 2020 and September 30, 2019:

	2020 $'000	2019 $'000
Tier 1 capital	3,497,397	1,969,506
Tier 2 capital	16,705	15,563
Total regulatory capital	3,514,102	1,985,069

	2020 $'000	2019 $'000
Risk-weighted assets:		
On-statement of financial position	3,241,588	2,161,445
Off-statement of financial position	33,431	171,097
Total risk-weighted assets	3,275,019	2,332,542
Tier 1 capital to total assets:		
Actual ratio	59.49%	47.24%
Required ratio	10.00%	10.00%

	2020 $'000	2019 $'000
Total regulatory capital to risk-weighted assets:		
Actual ratio	107.30%	85.10%
Required ratio	10.00%	10.00%

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

6. 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.

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 and are included in the level 2 fair value hierarchy.

6. 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 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. These are included in the level 2 fair value hierarchy.

(ii) Valuation techniques and significant unobservable inputs:

The following table shows the valuation technique used in measuring fair value in the Level 2 hierarchy for financial assets measured at fair value. There are no significant unobservable inputs used.

Type	**Valuation technique**
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.
Units held in Unit Trust	• Obtain prices provided by Unit Trust manager
Corporate bonds	• Prices of bonds at reporting date as quoted by a large and reputable international broker/dealer
Securities purchased under resale agreements	• The carrying amount is reasonable approximation of fair value due to their short-term interest.

6. 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:

	2020					
	Carrying amount			**Fair value**		
	FVTPL	FVTOCI	Total	Level 1	Level 2	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at fair value						
Quoted equities	62,463	-	62,463	62,463	-	62,463
Corporate bonds	-	965,256	965,256	-	965,256	965,256
Government of Jamaica bonds	-	139,448	139,448	-	139,448	139,448
	62,463	1,104,704	1,167,167	62,463	1,104,704	1,167,167

	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

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.

7. Other revenue

	2020	2019
	$'000	$'000
Service fees	-	15,634
Other fees	17,677	20,982
Foreign exchange gains, net	85,536	51,454
Fair value gain on investment securities at FVTPL	10,490	-
Gain on termination of leases	4,966	12,180
Miscellaneous	1,605	9,623
	120,274	109,873

8. Staff costs

	2020 $'000	2019 $'000
Salaries and wages	118,437	112,061
Statutory payroll contributions	10,881	8,950
Pension costs (note 29)	3,869	3,511
Other	15,343	15,084
	148,530	139,606

9. Other non-interest expenses

	2020 $'000	2019 $'000
Auditors' remuneration	4,748	4,602
Depreciation and amortization	7,022	5,082
Directors' fees	(7,291)	3,380
Insurance	5,681	1,987
Legal and other professional fees	26,055	70,296
Office rental	6,505	15,668
Other	36,071	34,371
Registration and license	13,717	9,949
Royalties	-	4,653
	92,508	149,988

10. Income tax

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

	2020 $'000	2019 $'000
Current income tax:		
Provision for charge on profit for the year	-	-
Deferred income tax (note 18)		
Tax effect of unused tax losses	317	(51,421)
Origination and reversal of temporary differences	5,487	29,424
	5,804	(21,997)

10. Income tax (continued)

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

	2020 $'000	2019 $'000
Profit/(loss) before income tax	51,902	(107,580)
Expected tax credit calculated at 33⅓	17,301	(35,860)
Adjusted for the effects of:		
Gain on sale of leases, not subject to tax	(1,655)	(4,060)
Net effect of other allowances and charges	(9,842)	17,923
Actual income tax charge	5,804	(21,997)

(c) Taxation losses, subject to agreement by the Commissioner General, Taxpayer Administration Jamaica, available for relief against future taxable profits, amounted to approximately $280,131,964 (2019: $280,172,000). 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.

11. Cash resources

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

Statutory reserves with BOJ, as required under Section 43 of the Banking Services 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 5% and 13% (2019: 7% 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% (2019: 0.00%).

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

	2020 $'000	2019 $'000
Notes, coins and money at BOJ	901,009	298,628
Less: Statutory reserves with BOJ	(157,132)	(194,832)
	743,877	103,796
Accounts with other banks- Foreign currency denominated	121,315	387,428
Accounts with other banks- Jamaica dollar denominated	218,764	73,962
	1,083,956	565,186

11. Cash resources (continued)

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

	2020 $'000	2019 $'000
Amounts due from other banks and cash in hand	1,083,956	565,186
Resale agreements (note 12)	1,452,925	1,083,419
Certificates of deposit (note 13)	61,114	10,995
	2,597,995	1,659,600

12. 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:

	2020 $'000	2019 $'000
Principal	1,453,068	1,090,393
Less impairment allowance	(143)	(6,974)
	1,452,925	1,083,419
Accrued interest receivable	5,432	1,123
	1,458,357	1,084,542

For the purposes of the statement of cash flows, an amount of $1,452,925,000 (2019: $1,083,419,000) is included in cash and cash equivalents [note 11(c)].

The fair value of securities held by the Company as collateral for resale agreements at the reporting date was $1,532,800,000 (2019: $274,747,610). In the prior year, the resale agreements were fully collateralized with securities of fair value amounting to $1,085,710,802 as at November 12, 2019, to achieve compliance with section 58 of the Banking Services Act.

13. Investment securities

	2020 $'000	2019 $'000
Financial assets measured at amortised cost:		
Certificates of deposit [note 11(c)]	61,114	10,995
Bank of Jamaica certificates of deposit	-	63,046
Government of Jamaica Benchmark Investment Notes	-	62,006
Interest accrued	-	1,239
	61,114	137,286
Less impairment allowance	-	(1,081)
Carried forward	61,114	136,205

13. Investment securities (continued)

	2020 $'000	2019 $'000
Brought forward	61,114	136,205
Financial assets measured at fair value through OCI		
Government of Jamaica bonds	139,448	-
Corporate bonds	965,256	-
Interest accrued	21,612	-
	1,126,316	-
Financial assets measured at fair value through profit or loss:		
Quoted equities	62,463	-
Units held in unit trust	-	103,196
	62,463	103,196
	1,249,893	239,401

Certain investment securities with a carrying value of $55,399,000 were pledged for a $30,000,000 overdraft facility in 2019. The overdraft facility was closed during the current year.

Expected credit losses on securities measured at fair value through other comprehensive amounted to $3,171,000 (2019:$nil). The amount is included in the fair value reserve (note 27).

14. Loans receivable

	2020 $'000	2019 $'000
Business and Government	714,680	754,204
Personal	556,280	254,134
Interest accrued	7,746	5,249
	1,278,706	1,013,587
Less impairment losses	(6,030)	(4,003)
	1,272,676	1,009,584

15. Net investment in finance leases

	2020 $'000	2019 $'000
Total minimum lease payments receivable	456,463	633,794
Less: Unearned income	(15,907)	(85,843)
	440,556	547,951
Less impairment losses	(164)	(1,541)
Net investment in finance leases	440,392	546,410

15. Net investment in finance leases (continued)

	2020 $'000	2019 $'000
Future minimum lease payments are receivable as follows:		
2020	245,317	263,872
2021	107,596	198,227
2022	43,889	86,713
2023	22,168	39,793
2024	29,865	22,097
2025	5,849	16,300
2026	1,779	6,792
	456,463	633,794

Included in the net investment in finance leases is $57,121,000 (2019: $77,184,400) which represents leases to related parties [note 31(c)].

16. Property, plant and equipment

	Leasehold $'000	Motor vehicle $'000	Furniture and equipment $'000	Computer hardware $'000	Total $'000
Cost:					
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
Additions	-	-	3,555	2,884	6,439
September 30, 2020	1,151	12,026	6,944	20,653	40,774
Accumulated depreciation:					
September 30, 2018	-	200	1,673	6,784	8,657
Charge for the period	115	2,406	302	2,077	4,900
September 30, 2019	115	2,606	1,975	8,861	13,557
Charge for the year	115	2,405	1,379	2,865	6,764
September 30, 2020	230	5,011	3,354	11,726	20,321
Net book values:					
September 30, 2020	921	7,015	3,590	8,927	20,453
September 30, 2019	1,036	9,420	1,414	8,908	20,778

17. Other assets

	2020 $'000	2019 $'000
Intangible assets	881	89
Prepayments, lease advances and other receivables	73,576	405,381
	74,457	405,470

Intangible assets consist of computer software. There were additions during the current amounting to $1,050,000. There was no addition in prior year. Amortisation for the year amounted to $258,000 (2019: $182,000).

18. 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:

	2018 $'000	Recognised in income $'000 (note 10)	2019 $'000	Recognised in income $'000 (note 10)	Recognised in other comprehensive income $'000	2020 $'000
Deferred tax asset:						
Property plant and equipment	39,559	(26,505)	13,054	6,723	-	19,777
Accrued vacation	850	-	850	909	-	1,759
Tax losses	42,272	51,421	93,693	(317)	-	93,376
	82,681	24,916	107,597	7,315	-	114,912
Deferred tax liability:						
Unrealised exchange/(losses)	(759)	(752)	(1,511)	(12,711)	-	(14,222)
Investments	-	-	-	-	(1,777)	(1,777)
Allowance for loan losses	(3,020)	(2,167)	(5,187)	(408)	-	(5,595)
	(3,779)	(2,919)	(6,698)	(13,119)	(1,777)	(21,594)
Net deferred tax asset	78,902	21,997	100,899	(5,804)	(1,777)	93,318

19. Leases

The Company leases property for office space and other uses. The lease run for a period of 1-10 years.

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

	2020 $'000
Right-of-use assets - properties:	
Recognised on transition to IFRS 16 at October 1	-
Additions	27,832
Depreciation charge for the year	(1,624)
Balance at September 30	26,208

19. Leases (continued)

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

	2020
Lease liabilities:	
Current	1,854
Non-current	24,177
	26,031

	2020 $'000
Future minimum lease payments:	
Less than one year	3,964
Between one to three years	7,929
Over three years	25,439
Total future minimum lease payments	37,332
Less future interest expense	(11,301)
Lease liability as at September 30	26,031

(ii) Amounts recognized in profit or loss relating to leases:

2020 – Leases under IFRS 16

	2020 $'000
Depreciation charge of right-of-use assets	1,624
Interest expense	512
Expense relating to short-term leases (included in administration expenses)	5,348

2019 – Operating leases under IAS 17

	2020 $'000
Lease expense	2,313

(iii) Amounts recognised in the statement of cash flows

	The Company 2020 $'000
Total cash out flows for leases	2,136

Amounts recognised in the statement of cash flows show the following amounts relating to lease.

19. Leases (continued)

(iv) Extension options

The property lease contains extension options exercisable by the Company up to February 28, 2030. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options.

The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Company has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liabilities of $11,345,000.

20. Customers' deposits

	2020 $'000	2019 $'000
Personal	407,905	410,894
Other	1,379,700	1,479,539
	1,787,605	1,890,433
Interest payable	11,246	11,374
	1,798,851	1,901,807

21. Other liabilities

	2020 $'000	2019 $'000
Advance from parent company [note 31]	3,066	24,045
Other	39,872	258,310
	42,938	282,355

22. Securities sold under repurchase agreement

	2020 $'000	2019 $'000
Securities sold under repurchase agreement	495,501	-
Accrued interest	1,509	-
	497,010	-

Securities sold under repurchase agreements are collaterised by investment securities (note 13) with carrying value amounting to $533,135,000 (2019: Nil)

23. Share capital

	2020 $'000	2019 $'000
Authorised -		
20,000,000 ordinary shares of no par value		
10,000,000 20% Non-cumulative preference shares of no par value		
1,600,000 5% Non-cumulative US$ preference shares		
14,500,000 5% JMD non-cumulative preference shares		
100,000,000 4% JMD non-cumulative preference shares		

	2020 $'000	2019 $'000
Issued and fully paid -		
17,000,000 ordinary shares	17,000	17,000
8,000,000 20% Non-cumulative preference shares	8,000	8,000
14,500,000 (2019:14,100,000) 5% Non-cumulative preference shares	2,762,780	1,762,780
5,000,000 4% Non-cumulative preference shares	477,000	-
1,600,000 5% Non-cumulative US$ preference shares	206,720	206,720
	3,471,500	1,994,500

(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%, 5% and 4% respectively (2019: 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. These represent non-cumulative non-redeemable preference shares and are shown net of share issue cost of $23,000,000.

	Issued shares	Amount $'000
April 21, 2020	5,000,000	477,000
October 7, 2019	400,000	1,000,000
	5,400,000	1,477,000

24. 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 to a reserve fund ("the Fund") until the amount in the Fund is 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.

On December 22, 2020, the Board of Directors approved the transfer of $4,056,000 (2019: Nil) to statutory reserve fund.

25. 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.

26. 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.

27. Fair value reserve

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

28. Dividends

There were no dividends declared for 2020 or 2019.

29. 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 $3,869,000 (2019: $3,511,000) (note 8).

30. Commitments

	2020 $'000	2019 $'000
Loans and leases [see (a)]	32,334	170,000
Guarantees [see (b)]	1,097	1,097
	33,431	171,097

(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.

(c) Commitments for capital expenditure amounted to approximately $128,658,000 (2019: $nil)as at the reporting date.

31. 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.

(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.

31. Related party transactions and balances

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

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

(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) 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:

	2020 $'000	2019 $'000
Owners:		
Loans receivable	23,079	-
Other assets	5,421	7,556
Other liabilities	(3,066)	(24,045)
Deposits	(8,481)	(11,802)

	2020 $'000	2019 $'000
Other related parties:		
Resale agreements	1,055,862	884,142
Investments	119,092	103,196
Deposits	(98,807)	(76,858)
Loans recoverable	-	65,417
Net investment in finance lease	57,121	77,184
Other assets	3,986	17,795

31. Related party transactions and balances (continued)

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

	2020 $'000	2019 $'000
Directors and key management personnel:		
Loans receivable	202,049	45,000
Deposits	(20,786)	(20,137)

(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:

	2020 $'000	2019 $'000
Owners:		
Interest income – loans	1,099	877

	2020 $'000	2019 $'000
Interest expense	18	(5,946)
Other related parties:		
Service fees	-	9,920
Rent	(3,469)	(5,348)
Royalties	-	(1,064)
	(3,469)	(3,508)
Interest income - Net investment in finance lease	691	8,189

	2020 $'000	2019 $'000
Directors and other key management personnel:		
Interest income	3,900	1,167
Interest expense	159	(41)
Directors' fees	-	(3,380)

(e) Key management compensation:

	2020 $'000	2019 $'000
Salaries and other short-term employee benefits	(53,948)	(48,511)
Statutory payroll contributions	(4,569)	(2,335)
	(58,517)	(50,846)

32. 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 had responsibility in accordance with the trust agreements. The Company retired as trustee effective March 20, 2020. The net asset value of these trust holdings, which has been excluded from the statement of financial position was $nil (2019: $30,677,553,000).

33. Impact of Covid 19

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in significant disruptions to economic activities, business operations and asset prices. In light of the heightened concerns and in accordance with the directives of the various governments, the Company activated its Business Continuity Plan to minimize the potential exposure to staff and clients, whilst ensuring that any disruption to the business is kept at a minimum. With the launch of the Business Continuity and Contingency Plan ("BCCP"), as at September 30, 2020, specific work from home protocols were established and implemented to minimize the number of employees physically in office. In-office staff are equipped with hand sanitizers, masks and face shields (where necessary), and are required to comply with the social/physical distancing rules mandated by governments in the various jurisdictions. Furthermore, the Company acquired additional equipment, including computer hardware and software, to support the increased flexible working arrangements.

The Company continues to monitor the impact of COVID-19 on its members/customers and has implemented forbearance measures inclusive of granting moratoria, which included deferral of loan payments for up to nine months. The Company ensures that its locations remain compliant with government/public health restrictions and attendant mitigating measures. Under IFRS 9, businesses are expected to include the impact of forward-looking macroeconomic indicators in their Expected Credit Loss (ECL) computation as at September 30, 2020.

Management continues to review the effect of developments arising from the pandemic on the risks faced by the Company. Management believes the Company is in a sufficiently strong position to deal with the possible significant economic downturn. However, management is aware that a long duration of the pandemic and the attendant containment measures could have a material adverse effect on the Company, and its customers, employees and suppliers.