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First Global Bank Limited

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31 December 2020

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Independent auditor's report

To the members of First Global Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of First Global Bank Limited (the Bank) as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of 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.

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

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica
30 March 2021

First Global Bank Limited

Statement of Financial Position

31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
ASSETS			
Cash and bank balances	5	11,077,247	6,744,308
Items in the course of collection from other banks		116,847	136,181
Securities purchased under resale agreements	6	283,819	65,592
Loans and advances, net of provision for credit losses	7	29,602,775	29,577,352
Investment securities	8	14,118,758	12,180,001
Pledged assets	8	7,610,387	9,227,048
Property, plant and equipment	9	1,259,592	1,193,077
Intangible assets	10	380,068	293,721
Deferred income tax assets	11	211,777	290,659
Taxation recoverable		72,556	72,556
Other assets	12	367,222	449,714
Guarantees, letters of credit and letters of undertaking, net of provision for credit losses	3(a)	176,869	360,214
Total Assets		65,277,917	60,590,423

First Global Bank Limited
Statement of Financial Position (Continued)
31 December 2020
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
LIABILITIES			
Customer deposits	13	47,690,961	40,625,304
Items in the course of payment		269,983	98,930
Due to other banks		-	61,831
Securities sold under repurchase agreements		4,968,483	7,892,207
Other borrowed funds	14	1,203,003	1,083,205
Lease liabilities	15	660,423	565,355
Post-employment benefit obligations	16	429,928	389,182
Other liabilities	17	1,015,057	1,335,422
Guarantees, letters of credit and letters of undertaking		188,642	371,953
Total Liabilities		56,426,480	52,423,389
EQUITY			
Share capital	18	3,564,181	3,564,181
Statutory reserve fund	19	1,726,081	1,326,081
Fair value reserve	20	646,082	441,315
Loan loss reserve	21	235,033	235,033
Retained earnings reserve	22	1,894,630	1,894,630
Stock option reserve		21,223	17,577
Retained earnings		764,207	688,217
Total Equity		8,851,437	8,167,034
Total Liabilities and Equity		65,277,917	60,590,423

Approved for issue by the Board of Directors on 25 March 2021 and signed on its behalf by:

Joseph Taffe — Director

Peter Moses — Director

Mariame McIntosh Robinson — Director

Kerry-Ann Heavens — Secretary

First Global Bank Limited

Statement of Comprehensive Income

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Interest Income –			
Loans		2,971,955	2,861,099
Securities	23	1,088,707	1,056,098
Other		18,025	52,513
		4,078,687	3,969,710
Interest Expense –			
Customer deposits		(494,527)	(496,792)
Securities sold under repurchase agreements		(155,596)	(217,013)
Lease liabilities	24	(42,727)	(36,198)
Other	24	(52,335)	(65,184)
		(745,185)	(815,187)
Net Interest Income		3,333,502	3,154,523
Credit Impairment Losses, Net	3(a)	(276,357)	(152,413)
		3,057,145	3,002,110
Other Income –			
Fees and commission income	25	1,071,849	997,718
Gains on foreign exchange translation and trading		731,245	703,262
Losses on investment activities	26	-	(6,160)
Other		8,441	39,930
		1,811,535	1,734,750
Net Interest and Other Income		4,868,680	4,736,860
Operating Expenses –			
Staff costs	27	(1,768,096)	(1,746,399)
Amortisation and depreciation		(341,185)	(289,050)
Administration and other expenses	28	(2,144,148)	(2,035,347)
		(4,253,429)	(4,070,796)
Profit before Taxation		615,251	666,064
Taxation	29	(71,711)	(173,761)
Net Profit		543,540	492,303

First Global Bank Limited
Statement of Comprehensive Income (Continued)
Year ended 31 December 2020
(expressed in Jamaican dollars unless otherwise indicated)

	2020 $'000	2019 $'000
Net Profit (brought forward from page 3)	543,540	492,303
Other Comprehensive Income –		
Items that may be subsequently reclassified to profit or loss:		
Realised (gains)/losses on investments measured at fair value through other comprehensive income, net of taxes	(607)	93,289
Unrealised gains on investments measured at fair value through other comprehensive income, net of taxes	205,374	426,619
Item that will not be reclassified to profit or loss:		
Re-measurements of post - employment benefit obligations, net of taxes	26,201	49,878
Other comprehensive income, net of taxes	230,968	569,786
TOTAL COMPREHENSIVE INCOME	774,508	1,062,089

First Global Bank Limited

Statement of Changes in Equity

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital $'000	Statutory Reserve Fund $'000	Fair Value Reserve $'000	Loan Loss Reserve $'000	Retained Earnings Reserve $'000	Stock Option Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2019	3,564,181	1,226,081	(78,593)	556,032	1,894,630	14,871	181,013	7,358,215
Total comprehensive income	-	-	519,908	-	-	-	542,181	1,062,089
Total transactions with equity holders - Ordinary and Preference dividends	-	-	-	-	-	-	(255,976)	(255,976)
Transfer from loan loss reserve	-	-	-	(320,999)	-	-	320,999	-
Employee share option scheme - Value of services received	-	-	-	-	-	2,706	-	2,706
Transfer to statutory reserve fund (Note 19)	-	100,000	-	-	-	-	(100,000)	-
Balance at 31 December 2019	3,564,181	1,326,081	441,315	235,033	1,894,630	17,577	688,217	8,167,034
Total comprehensive income	-	-	204,767	-	-	-	569,741	774,508
Total transactions with equity holders - Ordinary and Preference dividends	-	-	-	-	-	-	(93,751)	(93,751)
Employee share option scheme - Value of services received	-	-	-	-	-	3,646	-	3,646
Transfer to statutory reserve fund (Note 19)	-	400,000	-	-	-	-	(400,000)	-
Balance at 31 December 2020	3,564,181	1,726,081	646,082	235,033	1,894,630	21,223	764,207	8,851,437

First Global Bank Limited

Statement of Cash Flows

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Net profit for the year		543,540	492,303
Adjustments to reconcile profit for the year to net cash used in operating activities –			
Depreciation	9	275,477	243,022
Amortisation	10	65,708	46,029
Foreign exchange (gains)/losses		(69,469)	34,947
Losses on investment activities	26	-	6,160
Employee stock option		3,646	2,706
Provision for credit losses, net	3(a)	276,357	152,413
Interest income		(4,078,687)	(3,969,710)
Interest expense		745,185	815,187
Taxation	29	71,711	173,761
		(2,166,532)	(2,003,182)
Changes in other operating assets and liabilities –			
Customer deposits		7,090,777	2,932,370
Loans		(153,171)	(4,251,075)
Securities sold under repurchase agreements		(2,971,805)	671,709
Restricted cash and bank accounts		229,759	707,952
Post-employment benefits		84,205	80,942
Other assets		82,489	(32,964)
Other liabilities		(337,355)	703,223
Cash generated from/ (used in) operations		1,858,367	(1,191,025)
Interest received		3,916,816	3,995,754
Interest paid		(722,131)	(766,956)
Taxation paid		(108,313)	(156,057)
Net cash provided by operating activities (carried forward to page 7)		4,944,739	1,881,716

First Global Bank Limited

Statement of Cash Flows (Continued)

Year ended 31 December 2020

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities (brought forward from page 6)		4,944,739	1,881,716
Cash Flows from Investing Activities			
Purchase of investment securities		(3,300,883)	(2,957,150)
Disposal of investment securities		3,286,864	2,664,503
Proceeds on disposal of property, plant and equipment		-	5,236
Acquisition of property, plant and equipment	9	(174,757)	(147,264)
Acquisition of intangible assets	10	(152,055)	(170,382)
Net cash used in investing activities		(340,831)	(605,057)
Cash Flows from Financing Activities			
Repayment of other borrowed funds		(992,813)	(341,422)
Proceeds from other borrowed funds		1,080,611	206,965
Payment of principal on leases		(94,213)	(98,466)
Ordinary and preference dividends paid		(93,751)	(255,976)
Net cash used in financing activities		(100,166)	(488,899)
Net increase in cash and cash equivalents		4,503,742	787,760
Effects of foreign exchange rate changes on cash and cash equivalents		148,627	23,144
Cash and Cash Equivalents at Beginning of Year		2,157,284	1,346,380
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,809,653	2,157,284
Comprising:			
Cash and bank balances	5	6,678,970	2,116,272
Items in the course of collection from other banks		116,847	136,181
Securities purchased under resale agreements		283,819	65,592
Items in the course of payment		(269,983)	(98,930)
Due to other banks		-	(61,831)
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,809,653	2,157,284

1. Identification and Activities

(a) First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Services Act, 2019 (formerly Banking Act, 1992). The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office and principal place of business is located at 28 - 48 Barbados Avenue, Kingston 5.

(b) The Bank's principal activities are the provision of commercial banking and related financial services.

2. Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except for certain financial assets measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

The Bank has applied the following amendments for the first time for their annual reporting period commencing 1 January 2020:

- *Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform*
- *Amendments to IAS 1 and IAS 8 on the definition of material*

The amendments listed above did not have any impact on the amounts recognised in the prior period and did not significantly affect the current or future periods.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform, (effective for annual periods beginning or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries. There was no impact from the adoption of these amendments during the year.

Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors', (effective for annual periods beginning on or after 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRS and the Conceptual Framework of Financial Reporting; ii) clarify the definition of material; and iii) incorporate some of the guidance in IAS 1 about material information. There was no significant impact from the adoption of these amendments during the year.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

Standards, *interpretations and amendments to published standards not yet effective and have not been early adopted by the Bank*

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not effective at the date of the statement of financial position, and which the Bank has not early adopted. The Bank has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

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

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

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, *interpretations and amendments to published standards not yet effective and have not been early adopted by the Bank (continued)*

Amendments to IAS 16 and IAS 37 and some annual improvements on IFRS 9 and IFRS 16, (effective for annual periods beginning on or after 1 January 2022). Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related costs in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments, IFRS 9, 'Financial instruments', and the illustrative examples accompanying IFRS 16, 'Leases'. The Bank is currently assessing the impact of future adoption of these amendments.

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after 1 January 2021). The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 that address issues arising during the reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. Given the pervasive nature of IBOR-based contracts, the amendments could affect companies in all industries. This publication provides guidance on how to apply the Phase 2 amendments to various contracts and hedge accounting relationships, including the interaction with the Phase 1 reliefs for hedge accounting. The Bank is currently assessing the impact of future adoption of these amendments.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

(b) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in arriving at net profit or loss. Changes in the fair value of monetary assets denominated in foreign currencies and classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at net profit or loss and other changes are recognised in other comprehensive income.

(c) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, items in the course of collections/payments, short-term loans, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

2. Significant Accounting Policies (Continued)

(d) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as bonds, equities, interest rates, foreign exchange or other indices. These contracts are initially recognised at fair value on the date that they are entered into and are subsequently re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives are only used for economic hedging purposes and not as speculative investment. However, where derivatives do not meet the hedge accounting criteria under IFRS 9, Financial Instruments, they are accounted for at fair value through profit or loss.

(e) Securities purchased/sold under resale/repurchase agreements

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

(f) Financial assets

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date- the date on which the Bank commits to purchase or sell the asset. At initial recognition, the Bank measures a financial asset or liability at its fair value plus or minus transaction costs for all instruments not carried at fair value through profit or loss. All other financial instruments (including instruments designated at fair value through profit or loss) are measured at fair value, and transaction costs are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in Note 3(a), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the differences as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instruments, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories in accordance with the requirements under IFRS 9:

(a) Fair value through profit of loss (FVTPL)
(b) Fair value through other comprehensive income (FVOCI)
(c) Amortised cost

2. Significant Accounting Policies (Continued)

(f) Financial assets (continued)

Debt Instruments

Debt instruments include cash and bank balances, items in the course of collection from other banks, loans and advances, investments securities, guarantees and other assets.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Business model assessment

IFRS 9 requires an assessment of the nature of the Bank's business model at a level that best reflects how it manages portfolios of financial assets. The Bank's business models fall into two categories:

(i) Hold-to-Collect ("HTC"): where the objective of the business model is to solely collect the contractual cash flows from the assets.

(ii) Hold-to-Collect-and-Sell ("HTC&S"): where both collecting contractual cash flows and cash flows arising from the sale of assets are the objective of the business model.

Solely payments of principal and interest ("SPPI") assessment

Instruments held within HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are SPPI. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Debt instruments are measured at amortised cost if they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss together with foreign exchange gains or losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.

Debt instruments are measured at FVOCI if they are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent payments of principal and interest. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net (losses) / gains on investment activities. Interest income from these financial assets is recognised in interest income using the effective interest rate method. Foreign exchange gains or losses are presented in gains in foreign exchange translation and trading and impairment losses are presented as a separate line item in the statement of comprehensive income.

All other debt instruments are measured at FVTPL.

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

2. Significant Accounting Policies (Continued)

(f) Financial assets (continued)

Equity Instruments

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

The Bank has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio.

Impairment

Credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model. Changes in the required credit loss allowance are recorded in profit or loss for the period at each reporting date.

Expected credit losses ('ECL') is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Financial assets subject to impairment assessment include loans and advances, debt securities, and other assets. Loans and debt securities carried at amortised cost are presented net of ECL on the statement of financial position. ECL on debt securities measured at FVOCI is presented in other comprehensive income.

The Bank assesses, on a forward looking basis, the ECL associated with its debt instrument carried at amortised cost and FVOCI and with exposure arising from loan commitments and guarantees.

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

Write-offs are made when all or part of a loan is deemed uncollectible or is forgiven. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan or directly through the profit or loss (credit cards).

Recoveries in part or in full of amounts previously written-off are credited to provision for credit losses in arriving at net profit or loss.

2. Significant Accounting Policies (Continued)

(f) Financial assets (continued)

Impairment (continued)

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

De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset have expired, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ("OCI") is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss on de-recognition of such securities but transferred from OCI to retained earnings on disposal.

(g) Financial liabilities

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is a constant rate on the balance of the liability carried in the statement of financial position. Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost.

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

(h) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the shorter of their expected useful lives or the lease period. The expected useful lives are as follows:

Leasehold improvements	5 - 10 years
Office equipment, furniture and fixtures	10 years
Computer equipment	3- 5 years
Motor vehicles	5 years
Right-of-use asset	5- 20 years

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and maintenance expenses are charged in arriving at net profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

2. Significant Accounting Policies (Continued)

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

(j) Employee benefits

Pension obligations

The Bank participates in a defined benefit plan operated by the ultimate parent. The defined benefit plan is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

In the 2014 financial year, the ultimate parent company assumed the defined benefit pension obligations of all companies within the GraceKennedy Group participating in this scheme. As a result, the ultimate parent company recognises the total pension assets and obligations in respect of this plan. Under this arrangement, the obligation of the Bank is limited to the regular monthly pension contributions. Contributions are recognised by the period in which they are incurred.

The Bank also participates in a defined contribution plan operated by the ultimate parent. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits due.

Other post-employment benefit obligations

The entitlement to these benefits is usually based on the employee remaining in service up to post-employment age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period which they arise. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits

The ultimate parent company operates an equity-settled, share-based compensation plan, in which the Bank participates. Stock options in the ultimate parent company are granted to management and key employees of the Bank. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of the grant and have a contractual option term of up to six years. When options are exercised, the proceeds received, net of any transaction costs are passed on to the ultimate parent company and credited to Stock option reserve in equity.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal post-employment date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of the current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the date of the statement of financial position are discounted to present value.

2. Significant Accounting Policies (Continued)

(j) Employee benefits (continued)

Incentive plans

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration return on equity for the year after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(k) Income taxes

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

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

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

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

Current and deferred taxes are recognised as income tax expense or benefit in arriving at net profit or loss, except where they relate to items recorded in other comprehensive income.

(l) Leases

As a lessee

Leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Bank.

The right-of-use assets are presented within property, plant and equipment. At the commencement date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the underlying right-of-use assets during the lease term:

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point.

Each lease payment is allocated between the liability and finance cost. Lease liabilities are subsequently measured using the effective interest method. The carrying amount of liability is remeasured to reflect any reassessment, lease modification or revised in-substance fixed payments.

2. Significant Accounting Policies (Continued)

(l) Leases (continued)

As a lessee (continued)

The lease term is a non-cancellable period of a lease; periods covered by options to extend and terminate the lease are only included in the lease term if it is reasonably certain that the lease will be extended or not terminated.

Right-of-use assets are measured initially at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and,
- restoration costs.

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

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The amortisation period for the right-of-use assets is 5 to 20 years for office building.

Payments associated with all short-term leases and certain leases of all low-value assets are recognised on a straight-line basis as an expense in profit or loss. The Bank applies the exemption for low-value assets on a lease-by-lease basis i.e. for the leases where the asset is sub-leased, a right-of-use asset is recognised with corresponding lease liability; for all other leases of low value asset, the lease payments associated with those leases will be recognised as an expense on a straight-line basis over the lease term.

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

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

(m) Guarantees, letters of credit, letters of undertaking and loan commitments

Guarantees, letters of credit and undertaking represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. Guarantees, letters of credit and letters of undertaking are measured at fair value.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The Bank recognises expected credit losses on guarantees, letters of credit and undertaking and loan commitments.

2. Significant Accounting Policies (Continued)

(n) Income and expense recognition

Interest income and expense

Interest income and expense are recognised in arriving at net profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts or premiums on treasury bills and other instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Fee and commission income

Revenue is recognised as performance obligations are satisfied, that is, over time or at a point in time. Where a customer contract contains multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. A contract liability, representing amounts payable to customers, is recognised for advance consideration for which the related performance obligation has not yet been satisfied.

Fee and commission income is generally recognised on an accrual basis when the service has been provided.

Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan.

Credit card fee income is recognised as the performance obligations are satisfied. A contract liability is recognised for advance consideration.

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

<u>Income earned over time</u>

The Bank recognises contract liabilities in respect of contracts with customers for consideration received before the Bank transfers the service to the customer.

2. Significant Accounting Policies (Continued)

(o) Customer loyalty programme

The Bank operates a rewards-based credit card program whereby customers earn reward points for purchases made using their credit card. The points can be redeemed for value at selected merchants who participate in the programme, once certain conditions are met.

The consideration received from credit card purchases is allocated to the loyalty points using the relative fair values. In its capacity as an agent, the Bank recognises commission income, being the net of the consideration allocated to the loyalty points and the amounts payable to third parties with primary responsibility for satisfying the performance obligations in respect of awards. A financial liability is recognised in respect of amounts payable to third parties and no breakage is considered. The financial liability is included in 'other liabilities' in the statement of financial position and is recognised until the points are redeemed or expired.

(p) Offsetting financial instruments

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

3. Financial Risk Management

The Bank'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 business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank'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 Bank 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 Bank's risk management framework. The following committees were established for managing and monitoring risks:

Asset and Liability Committee
The Asset and Liability Committee (ALCO) is a management committee responsible for monitoring and formulating investment portfolios and investment strategies for the Bank. ALCO is also responsible for monitoring adherence to trading limits. Other responsibilities of ALCO include:

- Monitoring management's adherence to policies and procedures that are established to ensure that the Bank has adequate liquidity at all times;
- Monitoring and measuring capital adequacy for regulatory and business requirements;
- Establishing asset and liability pricing policies to protect the liquidity structure as well as assess the probability of various liquidity shocks and interest rate scenarios;
- Monitoring the statement of financial position and ensuring business strategies are consistent with liquidity requirements;
- Establishing and monitoring relevant liquidity ratios and statement of financial position targets; and,
- Ensuring full compliance with the Bank's Asset and Liability Manual as it relates to the management of liquidity risk, interest rate risk and foreign exchange risk.

The minutes of the ALCO meetings are submitted to the Board of Directors.

3. Financial Risk Management (Continued)

Audit Committee
The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and monitors regulatory compliance. The Audit Committee is assisted in its oversight role by the Internal Audit department of the ultimate parent company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee
The Credit Committee manages the Bank's credit portfolio. The Chairman and the members of the committee are charged with the responsibility to approve credit within their designated limits and make recommendations to the Board of Directors.

The most important types of risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

Impact of Covid-19
The World Health Organisation declared the novel coronavirus, Covid-19 to be a global pandemic in March 2020. The rapid spread and consequent containment measures such as closure of borders, physical distancing rules, mass quarantines, and stay at home orders for non-essential services have negatively affected economic activity and businesses worldwide.

There is an elevated level of uncertainty, which has adversely affected financial markets and business confidence. The Bank is exposed to an elevated level of credit risk, liquidity risk, foreign currency risk and price risk, with the most significant exposures relating to credit risk.

The nature and extent of the impact on the Bank's financial position, results and cash flows continues to evolve given the rapid pace of change and the elevated level of uncertainty. The Bank continues to monitor and manage the identified risks under the guidance of the Credit Risk and Board Sub-Committees.

The Bank recognised that customers may experience difficulties that could increase credit losses. The Bank saw positive impact from the extension of moratoriums, payment holidays and other accommodative measures on the delinquency levels of the lending portfolio. Despite these measures, the Bank made significant adjustments to ECLs to recognise the increased credit risk associated with the economic environment. Income was also impacted by waiver or reduction of fees, as well as reduction in loan volumes due to contraction in economic activity.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in investment and lending activities.

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectoral exposure, as well as to counterparty and group risk. Sectoral exposure as well as counterparty and group exposures are monitored by the Credit Risk team.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

Credit-related commitment risks also arise from guarantees/bonds issued by the Bank which may require payment on behalf of customers. Such guarantees/bonds are issued after analysis of the customers making the request to ensure that they have a good record of performance in the activity for which the bond or guarantee is being sought, as well as the taking of security as a secondary source of recovery in case of need. Generally, guarantees/bonds expose the Bank to similar risks as loans, and these are mitigated by the same control policies and processes.

Covid-19

The impact of COVID 19 contributed to the contraction in the economies globally. This resulted in travel restrictions, reduced economic activity which have impacted customers operating in several sectors including tourism, transportation and related services. The estimated impact of Covid-19 was incorporated in the ECL by including probability-weighted shocks to GDP and consequential impacts on unemployment economic variables.

Credit review process

The Bank has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations. The two main areas for the Bank are loans and advances and investment activities.

Loans and advances

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

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

The Bank's internal classification is as follows:

Rating	Description	
1	Low risk	– excellent credit history
2	Standard risk	– generally, abides by credit terms
3	Past due but not impaired	– late paying with increased credit risk
4	Credit impaired	– default

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

Investments

External rating agency credit grades are used to assess credit quality. These published grades are monitored and updated. Default probabilities and recovery rates are assigned as published by the rating agency.

The Bank limits its exposure to credit risk arising from investments by adhering to the investment counterparty limits as approved by the ALCO. Counterparty limits are reviewed and updated periodically.

Impairment of Financial Assets

Loss allowance recognised in profit or loss during the year is summarised below:

	2020	2019
	$'000	$'000
Loans and advances	260,740	144,998
Investment securities - at amortised cost	7,405	4,947
Investment securities - at FVOCI	8,212	2,468
	276,357	152,413

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

The carrying values of and ECL on the Bank's financial assets that are subject to the expected credit loss model for the current period are included in the table below:

	Carrying Value $'000 2020	ECL $'000 2020	Carrying Value $'000 2019	ECL $'000 2019
Loans				
Loans and advances	29,602,775	1,245,848	29,577,352	1,019,260
Loan commitments (off balance sheet)	444,310	8,311	1,177,259	21,597
	30,047,085	1,254,159	30,754,611	1,040,857
Guarantees, letters of credit and letters of undertaking (on- balance sheet)	176,869	7,913	360,214	6,492
Guarantees and letters of credit (off-balance sheet)	186,091	3,860	291,049	5,246
	30,410,045	1,265,932	31,405,874	1,052,595
Investment securities, including pledged assets	21,729,145	122,440	21,407,049	115,035
	52,139,190	1,388,372	52,812,923	1,167,630

Cash and bank balances, items in the course of collection from other banks and due from fellow subsidiaries (included in other assets) are subjected to the credit loss model. However, the identified impairment losses are deemed immaterial.

Loans and advances
The Bank applies the 'three stage' model under IFRS 9 in measuring the expected credit losses on loans and advances, and makes estimations about likelihood of defaults occurring, associated loss ratios, changes in market conditions, and expected future cash flows. This is measured using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for a portfolio of assets.

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

- Exposure at Default - This represents the expected balance at default, taking into account the repayment of principal and interest from the statement of financial position date to the default event together with any expected drawdowns of committed facilities.

- Loss Given Default – The LGD represents expected losses on the EAD given the event of default, taking into account the mitigating effect of collateral value at the time it is expected to be realised and also the time value of money.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

The 'three stage' model is used to categorise financial assets according to credit quality as follows:

- Stage 1 – financial assets that are not credit impaired on initial recognition or are deemed to have low credit risk. These assets generally abide by the contractual credit terms. The ECL is measured using a 12-month PD, which represents the probability that the financial asset will default within the next 12 months.

- Stage 2 – financial assets with a significant increase in credit risk (SICR) since initial recognition but are not credit impaired. The ECL is measured using a lifetime PD.

- Stage 3 – credit impaired financial assets. The ECL is measured using a lifetime PD.

Transfer between stages
Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. This assessment is done on a case-by-case basis.

<u>Significant Increase in Credit Risk (SICR)</u>
The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

Qualitative Criteria
- Deterioration in the Borrower's Risk Rating (BRR) below established threshold
- Material misrepresentation or inaccurate warranty
- Failure to comply with provisions of any statute under which the borrower conducts business
- Borrower enters into a scheme of arrangement
- Actual or expected restructuring
- Previous arrears within the last six months
- Early signs of cash flow/liquidity problems
- Expected significant adverse change in operating results of the borrower

However, the assessment of significant increase in credit risk and the above criteria will differ for different types of lending arrangements.

Loan commitments are assessed along with the category of loan the Bank is committed to provide.

The assessment of SICR is performed for individual loans, taking into consideration the sector grouping of the individual exposures, and incorporates forward looking information. This assessment is performed on a quarterly basis.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

Backstop
Irrespective of the above qualitative assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has monitoring procedures in place to assess whether the criteria used to identify SICR continues to be appropriate.

The Bank utilised the low credit risk exemption for financial assets at the reporting date.

Credit Impaired Assets
The Bank defines a financial instrument as credit impaired, when it meets one or more of the following criteria:

Quantitative criterion
The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria as outlined below, which indicates the borrower is in significant financial difficulty:
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Concessions have been made by the lender relating to the borrower's financial difficulty.

The criteria above have been applied to all financial assets held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

Measuring the ECL – Inputs, Assumptions and Estimation Techniques
The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

The ECL is determined by projecting the PD, LGD, and EAD, which are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month PD is calculated by observing the rate of historical default within the first year of a portfolio of loans, and adjusted for the expected impact of forward looking economic information.

The lifetime PD is calculated by observing the rate of historical default over the life of a portfolio of loans and adjusted for the impact of forward looking economic information.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

Measuring the ECL – Inputs, Assumptions and Estimation Techniques (continued)

The EAD for amortising and bullet repayment loans represents the expected balance at default, taking into account the repayment of principal and interest from the statement of position date to the default event together with any expected drawdowns of committed facilities.

The EAD for revolving products, such as credit cards, revolving loans and overdrafts is estimated by taking the current drawn balance and the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

Forward Looking Information
The assessment of SICR and the calculation of ECL both incorporate forward looking information that is available without undue cost or effort. The Bank uses external information including economic data and forecasts published by governmental bodies and the central bank. The information published however does not cover the Bank's credit risk exposure period and judgement was applied when incorporating these forecasts into our models. The Bank started with historical data of approximately 3 years in which a relationship between macro-economic indicators and default rates was developed. Judgement was applied in cases where a strong relationship between these key economic variables and expected credit losses was not identified based on the historical data used.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial asset. Forecasts of these economic variables are reviewed on a quarterly basis. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The Bank used three forward looking economic scenarios for each portfolio of loans (base, upside, downside). The base case is the single most-likely expected outcome. The scenario weightings are determined using judgment.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

The most significant year end assumptions used in determining the ECL as at the reporting date are set out below.

Economic factor	Scenarios	Range
Gross Domestic Product (GDP)	Base	0.5% - (10%)
	Upside	2.5% - (8%)
	Downside	(2%) - (12%)
Unemployment Rate	Base	7% - 14%
	Upside	5% - 12%
	Downside	9% - 16%

The underlying models and their calibration, including how they react to forward looking economic conditions was based on how the relationship of the Bank's existing portfolio responds to these variables and remains subject to review and refinement as the Bank builds data.

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

Sensitivity Analysis
Forward looking indicators having the most significant impact on the ECL are GDP growth and unemployment rate. Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

Forward Looking Indicator	Change in basis points:	Effect on ECL $'000	Forward Looking Indicator	Change in basis points:	Effect on ECL $'000
GDP growth	+ 100bp	4,716	Unemployment rate	+ 100bp	(164)
GDP growth	- 100bp	(4,716)	Unemployment rate	- 100bp	164

3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

Portfolio Segmentation
For stages 1 and 2, the expected credit loss provisions are modelled on a collective basis, by grouping exposures on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Exposures are grouped according to product type (term loans, overdrafts, credit cards, revolvers, guarantees and loan commitments) and industry (for example, manufacturing and distribution, tourism, personal loans).

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Stage 3 loans are assessed on an individual basis for impairment.

Maximum Exposure to Credit Risk
The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which it is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial assets such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial assets the Bank measures ECL over the period that it is exposed to the credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial assets do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial assets. This is because these financial assets are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL.

The gross carrying amount of loans and advances below represents the Bank's maximum exposure to credit risk on these assets. The following table contains an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognised.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

The expected credit loss is summarised as follows:

	2020 $'000	2019 $'000
On-balance sheet credit exposures		
Loans and advances	1,245,848	1,019,260
Guarantees, letters of credit and letters of undertaking	7,913	6,492
	1,253,761	1,025,752
Off-balance sheet credit exposures		
Loan commitments	8,311	21,597
Guarantees, letters of credit and letters of undertaking	3,860	5,246
	12,171	26,843
	1,265,932	1,052,595

	2020			
	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Lifetime ECL $'000	Total $'000
On-balance sheet credit exposures				
Standard risk	18,727,245	6,854,856	-	25,582,101
Past due	2,146,659	2,059,056	-	4,205,715
Credit impaired	-	-	1,069,118	1,069,118
	20,873,904	8,913,912	1,069,118	30,856,934
Guarantees, letters of credit and letters of undertaking	-	188,642	-	188,642
Gross carrying amount	20,873,904	9,102,554	1,069,118	31,045,576
Loss allowance	(292,331)	(386,450)	(574,980)	(1,253,761)
Carrying amount	20,581,573	8,716,104	494,138	29,791,815
Off-balance sheet credit exposures				
Guarantees, letters of credit and letters of undertaking	-	186,091	-	186,091
Loan commitments	-	444,310	-	444,310
Gross carrying amount	-	630,401	-	630,401
Loss allowance	-	(12,171)	-	(12,171)
Carrying amount	-	618,230	-	618,230

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

	2019			
	Stage 1 12-month ECL $'000	**Stage 2 Lifetime ECL $'000**	**Stage 3 Lifetime ECL $'000**	**Total $'000**
On-balance sheet credit exposures				
Standard risk	22,798,802	3,023,300	-	25,822,102
Past due	2,206,928	1,489,964	-	3,696,892
Credit impaired	-	-	1,099,215	1,099,215
	25,005,730	4,513,264	1,099,215	30,618,209
Guarantees, letters of credit and letters of undertaking	-	371,953	-	371,953
Gross carrying amount	25,005,730	4,885,217	1,099,215	30,990,162
Loss allowance	(268,990)	(247,670)	(509,185)	(1,025,845)
Carrying amount	24,736,740	4,637,547	590,030	29,964,317
Off-balance sheet credit exposures				
Guarantees, letters of credit and letters of undertaking	-	291,049	-	291,049
Loan commitments	-	1,177,259	-	1,177,259
Gross carrying amount	-	1,468,308	-	1,468,308
Loss allowance	-	(26,748)	-	(26,748)
Carrying amount	-	1,441,560	-	1,441,560

Gross carrying amount includes interest receivable of $302,047,000 (2019 - $153,472,000). Additional information on the carrying value is included in Note 7.

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of Financial Assets (continued)

Loans and advances (continued)

Concentration of credit risk

The majority of loans are extended to customers in Jamaica. The following table summarises the Bank's credit exposure for loans at their carrying amounts, as categorised by industry sector:

	Number of loan accounts		Credit exposure	
	2020	2019	2020 $'000	2019 $'000
Public sector	1	1	180	262
Financial institutions	19	27	326,127	363,884
Agriculture	43	37	1,066,667	703,373
Mining and quarrying	2	1	13,495	5,903
Manufacturing	53	70	1,462,581	1,622,313
Construction and land development	30	35	1,224,753	497,597
Transportation, storage and communication	36	32	1,320,069	2,230,954
Electricity, gas and water	13	14	2,342,830	2,646,094
Distribution	107	107	2,464,051	2,458,630
Tourism	15	23	1,978,952	1,899,769
Entertainment	4	3	7,549	8,635
Professional and other services	297	302	4,955,842	4,656,780
Individuals	13,622	14,754	12,439,679	12,483,158
	14,242	15,406	29,602,775	29,577,352

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment of Financial Assets (continued)

Loans and advances (continued)

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank utilises valuation of the collateral obtained as part of the loan origination process in the ECL model. An assessment of these valuations is done periodically. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; and,
- Charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of reverse repurchase agreements which are secured by portfolios of debt securities.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

Loans and advances that are credit impaired and the related collateral held in order to mitigate potential losses are shown below:

	2020			
	Gross Carrying Amount $'000	Loss Allowance $'000	Net Carrying Amount $'000	Fair Value of Collateral Held $'000
Retail loans and advances -				
Term loans and revolvers	630,737	(357,931)	272,806	572,237
Overdrafts	87,321	(73,719)	13,602	-
Corporate loans and advances -				
Term loans and revolvers	351,060	(143,330)	207,730	623,025
	1,069,118	(574,980)	494,138	1,195,262

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

	2019			
	Gross Carrying Amount	Loss Allowance	Net Carrying Amount	Fair Value of Collateral Held
	$'000	$'000	$'000	$'000
Retail loans and advances -				
Term loans and revolvers	439,547	(285,294)	154,253	503,925
Overdrafts	92,434	(78,832)	13,602	-
Corporate loans and advances -				
Term loans and revolvers	567,234	(145,059)	422,175	1,230,168
	1,099,215	(509,185)	590,030	1,734,093

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

Movement in expected credit loss
The loss allowance recognised in the year is impacted by a variety of factors. The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$'000	$'000	$'000	$'000
At 1 January 2020	268,990	332,562	451,043	1,052,595
Movements with profit or loss impact:				
Transfers:				
Transfer from Stage 1 to Stage 2	(17,518)	98,201	-	80,683
Transfer from Stage 1 to Stage 3	(1,114)	-	23,962	22,848
Transfer from Stage 2 to Stage 1	687	(1,309)	-	(622)
Transfer from Stage 2 to Stage 3	-	(2,858)	24,900	22,042
New financial assets originated	70,389	5,771	-	76,159
Changes in PDs/LGDs/EADs	20,683	(29,620)	111,630	102,693
Financial assets derecognised during the period	(49,786)	(4,126)	(36,555)	(90,467)
Direct write-offs	-	-	85,103	85,103
Recoveries	-	-	(37,698)	(37,698)
Loss allowance recognised in profit or loss	23,341	66,059	171,340	260,740
Other movements:				
Net write-offs against provision	-	-	(47,405)	(47,405)
At 31 December 2020	292,331	398,621	574,980	1,265,932

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Loans and advances (continued)

Movement in expected credit loss (continued)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$'000	$'000	$'000	$'000
At 1 January 2019	228,593	334,025	384,533	947,151
Movements with profit or loss impact:				
Transfers:				
Transfer from Stage 1 to Stage 2	(11,369)	23,356	-	11,987
Transfer from Stage 1 to Stage 3	(2,053)	-	12,325	10,272
Transfer from Stage 2 to Stage 1	871	(1,034)	-	(163)
Transfer from Stage 2 to Stage 3	-	(457)	8,807	8,350
New financial assets originated	126,351	4,111	-	130,462
Changes in PDs/LGDs/EADs	(18,900)	(18,892)	46,291	8,499
Financial assets derecognised during the period	(54,503)	(8,547)	(913)	(63,963)
Direct write offs	-	-	86,758	86,758
Recoveries	-	-	(47,204)	(47,204)
Loss allowance recognised in profit or loss	40,397	(1,463)	106,064	144,998
Other movements:				
Write-offs against provision	-	-	(39,554)	(39,554)
At 31 December 2019	268,990	332,562	451,043	1,052,595

Loans and leases are written off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity, and where the Bank's recovery method is foreclosing on collateral, and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off account balances that are still subject to enforcement activity, based on a reasonable expectation of amounts recoverable. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 was $85,103,000, (2019 - $86,758,000).

3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Debt securities
The Bank uses external credit ratings as published by established rating agencies in its assessment of the probability of default on debt securities. The PDs and LGDs for government and corporate bonds have been developed by the rating agencies based on statistics on the default, loss and rating transition experience of government and corporate bond issuers. The loss allowance on debt securities carried at amortised cost and FVOCI is measured using lifetime PDs.

Credit ratings and associated PDs are updated when external information becomes available or when our internal monitoring processes identifies a reasonable basis for an adjustment. Monitoring of these is performed on a quarterly basis.

Based on available credit ratings for sovereign and corporate debts, the debt securities were classified in stage 2 as they were below investment grade as defined by reputable rating agencies.

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

	2020 $'000	2019 $'000
Government of Jamaica	9,386,734	8,181,180
Bank of Jamaica	3,733,689	4,431,791
Corporates	6,998,685	7,958,008
Other regional governments	1,610,037	836,070
	21,729,145	21,407,049

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)
Impairment of Financial Assets (continued)

Debt securities (continued)

Debt securities at amortised cost
The loss allowance for debt securities at amortised cost reconciles from the opening loss allowance on 1 January to the closing loss allowance as at 31 December as follows:

	2020 $'000	2019 $'000
At 1 January	115,035	110,088
Loss allowance recognised in profit or loss	7,405	4,947
At 31 December	122,440	115,035

Debt securities at FVOCI
The loss allowance for debt securities at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The loss allowance for debt securities at FVOCI reconciles from opening loss allowance on 1 January to the closing loss allowance as at 31 December as follows:

	2020 $'000	2019 $'000
At 1 January	84,185	81,717
Loss allowance recognised in profit or loss	8,212	2,468
At 31 December	92,397	84,185

First Global Bank Limited

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum Exposure to Credit Risk – Other Exposures

The table below shows the Bank's maximum exposure to credit risk for other financial assets carried on the statement of financial position, without taking account of any collateral held of credit enhancement:

	2020 $'000	2019 $'000
Cash and bank	10,532,234	6,307,581
Items in the course of collection from other banks	116,847	136,181
Securities purchased under agreements to resell	283,819	65,592
Other assets	135,903	203,157
	11,068,803	6,712,511

(b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury Department, 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 and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit;

(iv) Optimising cash returns on investments;

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

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

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for companies ever to be completely matched since business transactions are is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of loss.

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

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

The Bank maintained adequate liquidity position thereby enabling the entity to meet its contractual and regulatory obligations.

Cash flows of financial instruments

The tables below present the undiscounted cash flows (both interest and principal cash flows) of the Bank's financial assets and liabilities based on contractual repayment obligations. The Bank expects that, based on estimates made by management as determined by retention history, many customers will not request repayment on the earliest date the Bank could be required to pay. The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and other financing institutions.

			2020			
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No specific Maturity $'000	Total $'000
Total financial assets	10,329,391	3,181,763	37,013,952	19,617,576	7,410,307	77,552,988
Financial liabilities						
Customer deposits	41,336,883	6,474,985	12,268	-	-	47,824,136
Items in the course of payment	269,983	-	-	-	-	269,983
Securities sold under repurchase agreements	2,613,628	2,355,852	-	-	-	4,969,480
Lease liabilities	22,819	139,738	493,590	216,915	-	873,062
Other borrowed funds	7,605	29,940	870,558	496,310	-	1,404,413
Other liabilities	932,950	-	-	-	-	932,950
Guarantees, letters of credit and letters of undertaking	184,642	-	4,000	-	-	188,642
Total financial liabilities	45,368,510	9,000,515	1,380,416	713,225	-	56,462,666

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial instruments (continued)

	2019					
	Within 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	No specific Maturity $'000	Total $'000
Total financial assets	7,396,037	4,031,798	21,420,595	41,127,155	5,370,085	79,345,670
Financial liabilities						
Customer deposits	35,212,525	5,490,986	10,318	-	-	40,713,829
Items in the course of payment	98,930	-	-	-	-	98,930
Due to other banks	61,831	-	-	-	-	61,831
Securities sold under repurchase agreements	4,100,378	2,875,109	1,046,619	-	-	8,022,106
Lease liabilities	20,799	86,369	412,335	212,351	-	731,854
Other borrowed funds	-	3,167	846,882	489,555	-	1,339,604
Other liabilities	1,142,113	-	-	-	-	1,142,113
Guarantees, letters of credit and letters of undertaking	370,953	-	1,000	-	-	371,953
Total financial liabilities	41,007,529	8,455,631	2,317,154	701,906	-	52,482,220

(c) Market risk

The Bank 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 risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance department 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 to the Bank's exposure to market risk or the manner in which it manages and measures the risk.

Covid-19

The investment portfolio was impacted by the widening of credit spreads resulting from the reduction in asset prices. The portfolio was closely monitored and did not experience any significant reductions. Since June 2020, asset prices improved across the financial asset classes.

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.

Covid-19

The tourism sector is a significant foreign currency generator in Jamaica. Travel restrictions and decline in economic activity have significantly impacted foreign currency inflows which resulted in increased foreign currency volatility. The Bank has carefully managed its currency exposures to minimise any potential losses.

First Global Bank Limited

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Currency risk (continued)

The Bank manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The Bank further manages this risk by maximising foreign currency earnings, holding foreign currency balances and by entering into foreign currency forward contracts. The net currency exposure of financial assets and liabilities at 31 December was as follows:

	2020					
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAD J$'000**	**Euro J$'000**	**Total J$'000**
Financial assets						
Cash and bank balances	5,391,644	5,308,761	265,876	53,070	57,896	11,077,247
Items in the course of collection from other banks	65,705	48,287	2,855	-	-	116,847
Securities purchased under resale agreements	-	283,819	-	-	-	283,819
Loans and advances, net of provision for credit losses	24,657,230	4,945,545	-	-	-	29,602,775
Investment securities and pledged assets	5,756,324	15,972,821	-	-	-	21,729,145
Other assets	81,048	52,146	-	-	2,709	135,903
Guarantees, letters of credit and letters of undertaking	176,869	-	-	-	-	176,869
Total financial assets	36,128,820	26,611,379	268,731	53,070	60,605	63,122,605
Financial liabilities						
Customer deposits	26,308,486	20,967,769	250,085	99,298	65,323	47,690,961
Items in the course of payment	167,035	95,354	4,222	2,931	441	269,983
Securities sold under repurchase agreements	1,099,535	3,868,948	-	-	-	4,968,483
Lease liabilities	585,361	75,062	-	-	-	660,423
Other borrowed funds	656,578	546,425	-	-	-	1,203,003
Other liabilities	461,345	469,575	(834)	1,640	497	932,223
Guarantees, letters of credit and letters of undertaking	188,642	-	-	-	-	188,642
Total financial liabilities	29,466,982	26,023,133	253,473	103,869	66,261	55,913,718
Net financial position	6,661,838	588,246	15,258	(50,799)	(5,656)	7,208,887

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
Currency risk (continued)

	2019					
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAD J$'000**	**Euro J$'000**	**Total J$'000**
Financial assets						
Cash and bank balances	2,350,945	3,942,408	259,385	114,265	77,305	6,744,308
Items in the course of collection from other banks	103,031	33,150	-	-	-	136,181
Securities purchased under resale agreements	-	65,592	-	-	-	65,592
Loans and advances, net of provision for credit losses	22,978,105	6,599,247	-	-	-	29,577,352
Investment securities and pledged assets	6,957,898	14,449,151	-	-	-	21,407,049
Other assets	85,239	117,918	-	-	-	203,157
Guarantees, letters of credit and letters of undertaking	230,720	129,494	-	-	-	360,214
Total financial assets	32,705,938	25,336,960	259,385	114,265	77,305	58,493,853
Financial liabilities						
Customer deposits	21,006,342	19,168,162	243,697	129,190	77,913	40,625,304
Items in the course of payment	98,930	-	-	-	-	98,930
Due to other banks	-	61,831	-	-	-	61,831
Securities sold under repurchase agreements	3,006,343	4,885,864	-	-	-	7,892,207
Lease liabilities	475,960	89,395	-	-	-	565,355
Other borrowed funds	685,729	397,476	-	-	-	1,083,205
Other liabilities	627,279	513,407	-	1,101	326	1,142,113
Guarantees, letters of credit and letters of undertaking	242,459	129,494	-	-	-	371,953
Total financial liabilities	26,143,042	25,245,629	243,697	130,291	78,239	51,840,898
Net financial position	6,562,896	91,331	15,688	(16,026)	(934)	6,652,955

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
Currency risk (continued)
Foreign currency sensitivity
The following table indicates the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The table below represents management's assessment of the possible change in foreign exchange rates and the impact on income. There is no direct impact on other components of equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation for the possible change in foreign currency rates. The correlation of variables will have a significant effect on determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis.

	2020		2019	
	% Change in Currency Rate	**Effect on Income $'000**	**% Change in Currency Rate**	**Effect on Income $'000**
Currency:				
US$	6% Depreciation	(35,295)	4% Depreciation	3,653
GBP	6% Depreciation	(915)	4% Depreciation	628
CAD	6% Depreciation	3,048	4% Depreciation	(641)
EURO	6% Depreciation	339	4% Depreciation	(37)
US$	-2% Appreciation	11,765	-2% Appreciation	(1,827)
GBP	-2% Appreciation	305	-2% Appreciation	(314)
CAD	-2% Appreciation	(1,016)	-2% Appreciation	321
EURO	-2% Appreciation	(113)	-2% Appreciation	19

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.

The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

The Bank'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 liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored by the ALCO.

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	2020				
	Within 3 months $'000	3 to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Financial assets					
Cash and bank balances	3,671,959	-	-	7,405,288	11,077,247
Items in the course of collection from other banks	-	-	-	116,847	116,847
Securities purchased under resale agreements	283,819	-	-	-	283,819
Loans and advances, net of provision for credit losses	2,194,655	738,011	26,368,062	302,047	29,602,775
Investment securities and pledged assets	2,668,849	734,447	18,320,829	5,020	21,729,145
Other assets	-	-	-	135,903	135,903
Guarantees, letters of credit and letters of undertaking	-	-	-	176,869	176,869
Total financial assets	8,819,282	1,472,458	44,688,891	8,141,974	63,122,605
Financial liabilities					
Customer deposits	36,290,878	11,284,947	12,339	102,798	47,690,961
Items in the course of payment	-	-	-	269,983	269,983
Securities sold under repurchase agreements	2,612,775	2,355,708	-	-	4,968,483
Lease liabilities	24,407	75,348	560,668	-	660,423
Other borrowed funds	483	8,665	1,193,855	-	1,203,003
Other liabilities	-	-	-	932,223	932,223
Guarantees, letters of credit and letters of undertaking	-	-	-	188,642	188,642
Total financial liabilities	38,928,543	13,724,668	1,766,861	1,493,646	55,913,718
Total interest repricing gap	(30,109,261)	(12,355,008)	42,922,030	6,648,328	7,208,887
Cumulative gap	-30,109,261	(42,361,471)	560,559	7,208,887	

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3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

	2019				
	Within 3 months	3 to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash and bank balances	1,494,420	-	-	5,249,888	6,744,308
Items in the course of collection from other banks	-	-	-	136,181	136,181
Securities purchased under resale agreements	65,592	-	-	-	65,592
Loans and advances, net of provision for credit losses	2,570,919	1,323,435	25,682,998	-	29,577,352
Investment securities and pledged assets	1,975,466	2,588,764	16,837,799	5,020	21,407,049
Other assets	-	-	-	203,157	203,157
Guarantees, letters of credit and letters of undertaking	-	-	-	360,214	360,214
Total financial assets	6,106,397	3,912,199	42,520,797	5,954,460	58,493,853
Financial liabilities					
Customer deposits	35,061,787	5,426,284	10,162	127,071	40,625,304
Items in the course of payment	-	-	-	98,930	98,930
Due to other banks	61,831	-	-	-	61,831
Securities sold under repurchase agreements	4,081,065	2,782,455	1,002,265	26,422	7,892,207
Lease liabilities	17,146	51,917	496,292	-	565,355
Other borrowed funds	577	3,296	1,079,332	-	1,083,205
Other liabilities	-	-	-	1,142,113	1,142,113
Guarantees, letters of credit and letters of undertaking	-	-	-	371,953	371,953
Total financial liabilities	39,222,406	8,263,952	2,588,051	1,766,489	51,840,898
Total interest repricing gap	(33,116,009)	(4,351,753)	39,932,746	4,187,971	6,652,955
Cumulative gap	(33,116,009)	(37,467,762)	2,464,984	6,652,955	

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate risk (continued)

The tables below summarise the weighted average effective yields of interest rate sensitive financial instruments by currency:

	2020				
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	-	0.30	0.05	-	-
Loans and advances, net of provision for credit losses	10.15	7.66	-	-	-
Investment securities	3.79	5.86	-	-	-
Customer deposits	1.21	0.59	0.13	0.05	0.05
Securities sold under repurchase agreements	1.92	2.89	-	-	-
Lease liabilities	6.25	4.25	-	-	-
Other borrowed funds	5.34	1.99	-	-	-

	2019				
	Jamaican$	**US$**	**GBP**	**CAD**	**Euro**
	%	**%**	**%**	**%**	**%**
Cash and bank balances	-	0.30	0.05	-	-
Loans and advances, net of provision for credit losses	11.80	8.50	-	-	-
Investment securities	4.05	5.60	-	-	-
Customer deposits	1.50	0.31	0.17	0.05	0.05
Securities sold under repurchase agreements	1.96	4.40	-	-	-
Lease liabilities	6.25	4.25	-	-	-
Other borrowed funds	6.06	4.25	-	-	-

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3. Financial Risk Management (Continued)

(c) Market risk (continued)
Interest rate risk (continued)
Interest rate sensitivity
The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's income and equity.

The sensitivity of income is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed-rate fair value through other comprehensive income (FVOCI) assets for the assumed changes in interest rates. The correlations 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 done on an individual basis. It should be noted that movements in these variables are non-linear.

2020			2019		
Change in basis points JMD/USD	**Net Effect on Income $'000**	**Net Effect on Equity $'000**	**Change in basis points JMD/USD**	**Net Effect on Income $'000**	**Net Effect on Equity $'000**
-100/-100	116,353	471,427	-100/-100	86,857	475,919
+100/100	(116,353)	(497,913)	+100/100	(86,857)	(412,542)

3. Financial Risk Management (Continued)

(d) Capital management

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

(i) To comply with the capital requirements set by the regulators of the markets within which the Bank operates;

(ii) To safeguard the Bank'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 daily by management and bi-monthly by the Board. The required information is filed with the Bank of Jamaica on a monthly basis.

The Bank of Jamaica requires the Bank to:

(i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2019 – 8%); and

(ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2019 – 10%).

The Bank's regulatory capital is managed by the ALCO and is divided into two tiers:

(i) Tier 1 capital: share capital, statutory reserve fund, retained earnings reserve fund, accumulated losses and net loss positions arising from fair value accounting; and,

(ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five 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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank complied with all of the externally imposed capital requirements to which it is subject.

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3. Financial Risk Management (Continued)

(e) Fair value estimation
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following tables provide an analysis of financial instruments held as at 31 December that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

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

	Level 2 2020	Level 2 2019
	$'000	$'000
Investment securities at fair value through other comprehensive income –		
Issued by the Government of Jamaica	6,843,161	5,844,339
Issued by other governments	1,336,248	836,070
Corporate bonds	2,067,964	1,853,342
	10,247,373	8,533,751

There were no transfers between levels during the year.

3. Financial Risk Management (Continued)

(e) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. The Bank did not hold any of these instruments at the date of the statement of financial position.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes certificates of deposit and bonds issued by the Government of Jamaica, indicative prices of which are obtained from regular, publicly available quotes by reputable dealers and brokers.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. There were no material level 3 financial instruments at 31 December 2020 and 31 December 2019.

The following methods and assumptions have been used in determining the fair values of financial instruments that are not remeasured at fair value after initial recognition:

- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.

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

- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.

- The carrying values of non-current borrowings from non-related parties approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Covid-19
Management has exercised the use of significant judgement in determining the expected credit losses (ECLs) in relation to the Bank's loan receivables. There is a high degree of estimation uncertainty surrounding the ECL determination, given the rapid pace of change in the economic environment, increased level of uncertainty and the availability of information. However, the Bank has implemented enhanced monitoring to ensure that estimates are consistent with current economic and forecasted variables.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring the ECL is further detailed in note 3(a), which also sets out key sensitivities of the ECL to changes in these elements. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate assumptions for the measurement of ECL;
- Developing a range of unbiased future economic scenarios and relative weightings;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and,
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities.

Information about the judgments and estimates made by the Bank in the above areas is set out in note 3(a).

Other post-employment benefits
The cost of these benefits and the present value of the other post-employment liabilities depend on a number of factors that are to be determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost or income for other post-employment benefits include, the discount rate and, in the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost or income recorded for other post-employment benefits. The Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the other post-employment benefit obligations. In determining the appropriate discount rate, the Bank considered the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Other key assumptions for the other post-employment benefits costs and credits are based in part on current market conditions.

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

Fair value of financial instruments
In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arm's length transaction.

Critical judgements in determining the lease term
Extension and termination options are included in the property leases (office buildings). The extension and termination options held are exercisable only by the Bank and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (extension option) or not terminated (termination option). The assessment of whether the Bank is reasonably certain to exercise an extension option, or not to exercise a termination option is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Bank.

The management has applied judgment for office buildings, extension options were included as it is was reasonably certain that the Bank will continue the lease beyond the 5-year period.

Income taxes
Significant judgement is required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Bank also recognises deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

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5. Cash and Bank Balances

	2020 $'000	2019 $'000
Notes and coins	545,013	436,727
Accounts with other banks	3,519,157	1,124,475
Balances with the Bank of Jamaica, other than statutory reserves	2,614,800	555,070
Included in cash and cash equivalents	6,678,970	2,116,272
Statutory reserves with the Bank of Jamaica	4,022,709	4,373,268
Cash held as collateral and other restricted cash accounts	375,568	254,768
	11,077,247	6,744,308

Statutory reserves with the Bank of Jamaica are held in compliance with Section 43 of the Banking Services Act, 2019 (formerly Banking Act, 1992), which requires that every licensee maintains a cash reserve with the Bank of Jamaica. A prescribed minimum of 19% (2019 - 21%) of Jamaica dollar currency deposits liabilities and 27% (2019 - 29%) of foreign currency deposit liabilities is required to be maintained as cash reserves by the bank in liquid assets of which 5% (2019 – 7%) must be maintained as cash reserves for Jamaican dollar currency and 13% (2019 – 15%) for foreign currency cash reserves. No portion of the cash reserve is available for investment, lending or other use by the Bank.

6. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreements collaterised by Government of Jamaica securities and Bank of Jamaica certificates of deposits. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations.

7. Loans and Advances, Net of Provision for Credit Losses

	2020 $'000	2019 $'000
Gross loans	30,554,887	30,464,737
Less: Provision for credit losses	(1,254,159)	(1,040,857)
	29,300,728	29,423,880
Interest receivable	302,047	153,472
	29,602,775	29,577,352

The current portion of loans amounted to $2,932,666,000 (2019 – $3,894,354,000). Provision for credit losses include loan commitments of $8,311,000 (2019 - $21,597,000).

The aggregate amount of non-performing loans on which interest was not being accrued amounted to $1,069,117,000 (2019 – $1,099,215,000).

	2020 $'000	2019 $'000
Provision for credit losses on loans and advances - IFRS	1,245,848	1,019,260
Loan loss reserve	235,033	235,033
Provision for credit losses on loans and advances - Bank of Jamaica		
Specific provisions	957,334	960,711
General provision	294,751	293,582
	1,252,085	1,254,293

The excess of the regulatory provision over the IFRS provision is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

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8. Investment Securities and Pledged Assets

	2020 $'000	2019 $'000
At amortised cost:		
Issued by the Government of Jamaica –		
Benchmark investment notes	2,785,365	2,802,978
Bank of Jamaica Certificates of Deposits	3,705,232	4,378,435
Corporate bonds	4,888,241	5,703,140
	11,378,838	12,884,553
At fair value through other comprehensive income:		
Issued by the Government of Jamaica –		
Global bonds	6,690,820	5,713,397
Issued by other governments	1,321,597	811,074
Corporate bonds	2,049,390	1,723,491
Unquoted equity	5,020	5,020
	10,066,827	8,252,982
	21,445,665	21,137,535
Interest receivable	283,480	269,514
	21,729,145	21,407,049
Less: Pledged assets	(7,610,387)	(9,227,048)
	14,118,758	12,180,001

The current portion of investment securities amounted to $3,403,296,000 (2019 – $4,564,230,000).

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9. Property, Plant and Equipment

	Leasehold Improvements	Computer Equipment	Equipment, Furniture and Fixtures	Motor Vehicles	Right-of- use Assets	Work-in-Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost -							
1 January 2019	520,824	551,267	418,513	24,375	627,623	50,147	2,192,749
Additions	9,873	44,191	9,645	-	-	83,555	147,264
Transfer	-	8,295	143	-	-	(8,438)	-
Disposals	-	(6,082)	(829)	-	-	-	(6,911)
31 December 2019	530,697	597,671	427,472	24,375	627,623	125,264	2,333,102
Additions	10,127	65,256	-	-	182,111	99,374	356,868
Transfers	744	65,916	17,312	-	-	(83,972)	-
Disposals	-	-	(14,876)	-	-	-	(14,876)
31 December 2020	541,568	728,843	429,908	24,375	809,734	140,666	2,675,094
Depreciation -							
1 January 2019	274,413	397,569	209,422	20,206	-	-	901,610
Charge for year	43,843	80,650	36,153	2,232	80,144	-	243,022
Disposals	-	(4,105)	(502)	-	-	-	(4,607)
31 December 2019	318,256	474,114	245,073	22,438	80,144	-	1,140,025
Charge for year	39,500	95,465	29,311	1,937	109,264	-	275,477
31 December 2020	357,756	569,579	274,384	24,375	189,408	-	1,415,502
Net Book Value -							
31 December 2020	183,812	159,264	155,524	-	620,326	140,666	1,259,592
31 December 2019	212,441	123,557	182,399	1,937	547,479	125,264	1,193,077

10. Intangible Assets

	Total $'000
Cost -	
1 January 2019	1,205,458
Additions	170,382
31 December 2019	1,375,840
Additions	152,055
31 December 2020	1,527,895
Amortisation -	
1 January 2019	1,036,090
Amortisation charge for the year	46,029
31 December 2019	1,082,119
Amortisation charge for year	65,708
31 December 2020	1,147,827
Net Book Value -	
31 December 2020	380,068
31 December 2019	293,721

Included in the balance at 31 December 2020 is software with a carrying value of $175,802,000 (2019 - $150,617,000) which is in development. These amounts are not yet available for use and have not been amortised. These projects are estimated to be completed in 2021.

11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33 ⅓%. The movement in the deferred income tax balance was as follows:

	2020 $'000	2019 $'000
At beginning of year	290,659	606,875
Deferred tax credited/ (charged) in statement of comprehensive income (Note 29)	36,602	(31,322)
Deferred tax charged to other comprehensive income	(115,484)	(284,894)
At end of year	211,777	290,659

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11. Deferred Income Taxes (Continued)

Deferred tax recognised in the statement of financial position was attributable to the following temporary differences:

	2020 $'000	2019 $'000
Tax losses carried forward	37,979	144,693
Post-employment benefits	143,309	129,727
Differences between IFRS and BOJ specific provisions for loan losses	96,171	19,516
Accelerated tax depreciation	143,490	106,831
Fair value changes of investment securities	(276,826)	(178,566)
Impairment on investment securities	71,612	66,406
Lease liabilities	12,554	5,959
Other	(16,512)	(3,907)
	211,777	290,659

Deferred tax assets include $120,632,000 (2019 – $143,725,000) which is expected to be recovered within 12 months.

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with Tax Administration Jamaica, losses available for offset against future profits amount to $99,097,000 (2019 – $434,080,000).

The deferred tax credited/(charged) in profit or loss is attributable to the following temporary differences:

	2020 $'000	2019 $'000
Tax losses carried forward	(106,715)	(142,440)
Post-employment benefits	26,682	26,981
Differences between IFRS and BOJ specific provisions for loan losses	76,655	121,494
Accelerated tax depreciation	36,658	(28,164)
Other	3,322	(9,193)
	36,602	(31,322)

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11. Deferred Income Taxes (Continued)

The deferred tax charged to other comprehensive income is attributable to the following temporary differences:

	2020 $'000	2019 $'000
Realised gains/losses on FVOCI	303	(46,645)
Unrealised gains on FVOCI	(102,687)	(213,310)
Re-measurements of post-employment benefits	(13,100)	(24,939)
	(115,484)	(284,894)

12. Other Assets

	2020 $'000	2019 $'000
Withholding tax recoverable	94,685	85,115
Due from fellow subsidiaries	20,801	42,474
Prepayments and deposits	136,634	161,442
Commissions receivable	23,574	14,284
Settlement recoverable	-	70,901
Other	91,528	75,498
	367,222	449,714

Total balance falls due within 12 months of the year end.

13. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits		Value of deposits	
	2020	2019	2020 $'000	2019 $'000
Financial institutions	360	309	7,130,613	7,037,660
Commercial and business enterprises	6,886	6,937	21,382,377	18,807,987
Personal	62,452	40,720	16,186,796	12,008,611
Other	227	555	2,889,224	2,643,975
	69,925	48,521	47,589,010	40,498,233
Interest payable			101,951	127,071
			47,690,961	40,625,304

The non-current portion of customer deposits amounted to $12,338,000 (2019 – $10,162,000).

14. Other Borrowed Funds

	2020 $'000	2019 $'000
Long term loans	1,202,156	1,082,450
Interest payable	847	755
	1,203,003	1,083,205

Long term loans
These loans are provided primarily for the purpose of on-lending to customers who meet certain requirements and are to be used for eligible enterprises and projects. The balance at year end was comprised as follows:

	2020 $'000	2019 $'000
Development Bank of Jamaica Limited	1,001,340	1,003,542
National Housing Trust	200,816	78,908
Interest payable	847	755
	1,203,003	1,083,205

The current portion of the long-term loans is $9,148,000 (2019 – $3,872,599).

The loans from Development Bank of Jamaica Limited are granted in both Jamaican and United States Dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. These loans have maturity dates ranging from March 2021 to December 2030 and attract interest at rates ranging from 4% – 7%.

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14. Other Borrowed Funds (Continued)

The loans from National Housing Trust (NHT) are granted as part of the Joint Financing Mortgage Programme with borrowers of the Bank. These loans are for terms up to 25 years at rates ranging from 0% - 4.5%.

The carrying amounts of the Bank's other borrowed funds are denominated in the following currencies:

	2020 $'000	2019 $'000
US dollar	546,425	397,476
Jamaican dollar	656,578	685,729
	1,203,003	1,083,205

The Bank has no undrawn borrowing facilities.

15. Leases

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

	2020 $'000	2019 $'000
Right-of-use assets (Note 9)		
Buildings	620, 326	547,479
Lease liabilities		
Current	99,755	69,063
Non-current	560,668	496,292
	660,423	565,355

15. Leases (Continued)

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

	2020 $'000	2019 $'000
Depreciation charge for right-of-use assets (Note 9)	109,264	80,144
Interest expense on lease liabilities (Note 24)	42,727	36,198
Total expenses related to leases	151,991	116,342

The total cash flow for leases is $94,213,000 (2019 – $98,466,000).

(a) The Bank's leasing activities

The Bank leases office buildings to conduct banking and related financial services. Leases are negotiated on an individual basis and contain a wide range of different terms and conditions (including termination and renewal rights). Extension and termination options are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options for an additional 5 to 15 years.

The lease payments are fixed and adjusted for inflation. The inflation increases are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

To determine the incremental borrowing rate, the Bank uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank and makes adjustments specific to the lease, such as the term, country, currency and security.

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16. Pensions and Post-Employment Benefit Obligations

The Bank participates in a defined contribution pension scheme started by the ultimate parent company. The scheme is open to employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional 5%. The employer's contributions are currently set at 10%. The Bank's contribution for the year was $71,701,000 (2019 - $72,702,000).

The Bank also participates in a defined benefit pension plan operated by the ultimate parent company. The plan, which commenced on 1 January 1975, is funded by employees' contributions at 5% of salary with the option to contribute an additional 5%, and employer's contributions at 0.2%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the pension fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by Proven Fund Managers Limited.

The Bank also participates in a number of other post-employment benefit plans, including group-life, insured and self-insured health care, gratuity and other supplementary plans. These plans are not funded.

The defined benefit plans are valued annually on 31 December by independent actuaries.

The amounts recognised in the statement of financial position in relation to other post-employment obligations were determined as follows:

	2020 $'000	2019 $'000
Present value of unfunded obligations	(429,928)	(389,182)

The amounts recognised in arriving at net profit or loss were as follows:

	2020 $'000	2019 $'000
Current service cost	55,114	56,747
Interest cost on obligation	29,113	26,745
Past service cost	(2,147)	(274)
Curtailment	-	(2,273)
Total, included in staff costs (Note 27)	82,080	80,945

The amounts recognised in other comprehensive income are as follows:

	2020 $'000	2019 $'000
Re-measurements of post-employment benefit obligations	(39,301)	(74,817)

16. Pensions and Post-Employment Benefit Obligations (Continued)

The movement in the present value of unfunded obligations was as follows:

	Other post-employment benefits	
	2020	2019
	$'000	$'000
Balance at start of year	389,182	383,054
Current service cost	55,114	56,747
Interest cost	29,113	26,745
Past service cost vested	(2,147)	(274)
Curtailment	-	(2,273)
Included in staff costs	82,080	80,945
Re-measurements:		
Gains from changes in demographic assumptions	(4,969)	(4,683)
Gains from changes in financial assumptions	(45,316)	(65,714)
Experience losses/(gains)	10,984	(4,420)
Included in other comprehensive income	(39,301)	(74,817)
Benefits paid	(2,033)	-
Balance at end of year	429,928	389,182

The composition of the liability recognised in relation to the other post-employment benefit obligations in the statement of financial position is as follows:

	2020	2019
	$'000	$'000
Gratuity Plan	26,604	21,264
Group Life Plan	150,497	112,263
Insured Group Health	236,573	236,440
Self-Insured Health Plan	16,254	19,215
Liability in the statement of financial position	429,928	389,182

The principal actuarial assumptions used were as follows:

	2020	2019
Discount rate	9.00%	7.50%
Long term inflation rate	6.00%	4.00%
Future salary increases	7.50%	5.00%
Future pension increases	6.00%	4.00%
Medical claims growth	7.00%	6.00%

16. Pensions and Post-Employment Benefit Obligations (Continued)

The average life expectancy in years of a pensioners retiring at age 60 on the statement of financial position date is as follows:

	2020	2019
Male	25.00	27.38
Female	27.30	28.25

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	Impact on other employee benefit obligations		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	48,506	(65,205)
Medical inflation rate	1%	(65,906)	49,687

Risks associated with other post-employment obligations

Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Changes in bond yields
A decrease in Government of Jamaica bond yields will increase plan liabilities.

Inflation risk
Higher inflation will lead to higher liabilities if discretionary pension increases are granted.

16. Pensions and Post-Employment Benefit Obligations (Continued)

Life expectancy
The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for the formulating and monitoring of investment portfolios and investment strategies for the plan. The Committee is also responsible for the approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed.

Funding levels are monitored on an annual basis and the current agreed contribution rate is 5% of pensionable salaries with the option to contribute an additional 5%. The next triennial valuation is due to be completed as at 31 December 2020. The Bank considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment benefit obligation is as follows:

	Years 2020	Years 2019
Gratuity Plan	12.1	13.0
Group Life Plan	23.7	26.4
Insured Group Health Plan	17.4	25.5
Self-insured Health Plan	22.8	18.7
Superannuation Plan	N/A	N/A

17. Other Liabilities

	2020 $'000	2019 $'000
Due to fellow subsidiaries	23,570	98,104
Credit card loyalty scheme	218,821	213,726
Staff vacation and bonus accruals	218,336	153,404
Trade payables	15,115	54,875
Corporate tax payable	65,734	177,458
Withholding tax payable	17,100	15,851
Settlement payable	-	292,941
Other accruals	456,381	329,063
	1,015,057	1,335,422

Total balance, excluding the credit card loyalty scheme balance, falls due within 12 months of the year end.

18. Share Capital

	2020 $'000	2019 $'000
Authorised –		
629,482,500 ordinary shares		
102,500 non-redeemable convertible preference shares		
Issued and fully paid –		
628,670,000 (2019 – 628,670,000) ordinary shares of no par value	2,377,685	2,377,685
102,500 (2019 – 102,500) non-redeemable convertible preference shares	1,186,496	1,186,496
	3,564,181	3,564,181

Convertible preference shares

In April 2009, the Bank issued 100,000 5.5% non-voting, non-redeemable, non-cumulative, convertible preference shares to International Finance Corporation (IFC) for a cash consideration of US$10 million. These shares are each convertible into 1,536.55 ordinary shares. After their third anniversary of ownership by IFC, these preference shares are convertible to ordinary shares at IFC's option under certain conditions. The shares may, however, be converted at any time if they are owned by a member of the GraceKennedy Group. If there is a change in control of the Bank as defined by the agreement, the shares will be immediately converted into ordinary shares.

On 2 July 2014, all the preference shares previously held by the IFC in the Bank were sold to First Global Holdings Limited (FGH) and all beneficial titles to the shares were transferred to FGH, free and clear of any liens or encumbrances.

Declaration of dividends on these preference shares is at the discretion of, and requires approval from, the Bank's Board of Directors. Such declarations are possible only if there are available distributable profits, as defined by the agreement. Dividends on ordinary shares are subordinate to dividends on these preference shares. Additionally, the preference shareholders are not entitled to further distributions.

In the event of liquidation, preference shareholders are entitled to the aggregate paid-up share subscription price, as defined by the agreement, plus accrued and unpaid preferred dividends after all debt obligations have been met. These preference shareholders have priority over the ordinary shareholders, subject to the availability of adequate net assets.

In November 2015, the Bank issued 2,500 5.5% non-voting, non- redeemable, non- cumulative Preference Shares to GraceKennedy (St. Lucia) Limited for a cash consideration of USD $2.5 million. The shares are convertible only into ordinary shares and the conversion of the preference shares held by GraceKennedy (St. Lucia) Limited shall be subject to the mutual agreement in writing of the Bank and holder of the shares.

19. Statutory Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. During the year the Bank transferred $400,000,000 (2019 - $100,000,000) to this reserve.

20. Fair Value Reserve

This represents the net unrealised gains on the revaluation of investment securities amounting to $922,908,000 (2019 – losses of $619,881,000) and is shown net of attributable deferred taxation of $276,826,000 (2019 – $178,566,000).

21. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 7).

22. Retained Earnings Reserve

The Banking Services Act 2019 (formerly Banking Act, 1992) permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

23. Interest Income on Securities

	2020 $'000	2019 $'000
Interest income was earned on –		
Investments classified as amortised cost	676,667	656,151
Investments classified as fair value through other comprehensive income	410,421	398,790
Securities purchased under resale agreements	1,619	1,157
	1,088,707	1,056,098

24. Other Interest Expense

	2020 $'000	2019 $'000
Interest expense on lease liabilities (Note 15)	42,727	36,198
Other	52,335	65,184
	95,062	101,382

25. Fee and Commission Income

	2020 $'000	2019 $'000
Credit related	634,735	572,420
Retail banking	214,300	197,660
Other	222,814	227,638
	1,071,849	997,718

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26. Losses on Investment Activities

	2020 $'000	2019 $'000
Losses on sale of investments classified as fair value through other comprehensive income	-	(6,160)
	-	(6,160)

27. Staff Costs

	2020 $'000	2019 $'000
Wages and salaries	1,376,595	1,320,846
Statutory contributions	111,050	111,620
Defined contribution scheme	71,701	72,702
Other post-employment benefit obligations (Note 16)	82,080	80,945
Other	126,670	160,286
	1,768,096	1,746,399

28. Administration and Other Expenses

	2020 $'000	2019 $'000
Advertising and publicity	49,771	123,480
Asset tax	135,339	122,075
Auditors' remuneration	16,060	11,962
Bank charges	42,146	38,051
Computer expenses	315,298	296,056
Credit card expenses	297,784	241,915
Directors' emoluments	8,327	8,077
Fees and charges	21,857	19,860
Royalties	139,044	125,693
Group expenses	541,617	470,286
Insurance and licensing	84,970	96,629
Irrecoverable General Consumption Tax	79,560	93,397
Postage and courier	24,571	29,925
Professional fees	49,745	34,477
Rental and maintenance	68,349	93,940
Telephone and data	75,096	55,595
Other property cost, and utilities	94,748	90,175
Stationery	14,327	16,481
Other	85,539	67,273
	2,144,148	2,035,347

Group expenses incurred relate to management and divisional fees paid to its parent and ultimate parent company.

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29. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises:

	2020 $'000	2019 $'000
Current income tax	108,313	142,439
Deferred income tax (Note 11)	(36,602)	31,322
	71,711	173,761

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

	2020 $'000	2019 $'000
Profit before taxation	615,251	666,064
Tax calculated at a tax rate of 33⅓%	205,084	222,021
Adjusted for the effects of –		
Tax free income	(105,907)	(109,599)
Preference dividends	(31,250)	(30,421)
Asset tax	45,113	40,692
Expenses not deductible for tax purposes	3,705	20,989
Prior year adjustment on deferred tax	(51,949)	26,224
Sundry items	6,915	3,855
	71,711	173,761

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29. Taxation (Continued)

The tax charged relating to components of other comprehensive income is as follows:

	2020		
	Before tax	Tax credit/ (charged)	After tax
	$'000	$'000	$'000
Items that may be subsequently reclassified to profit or loss:			
Realised gains on investments at fair value through other comprehensive income	(910)	303	(607)
Unrealised gains on investments at fair value through other comprehensive income	308,061	(102,687)	205,374
Item that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	39,301	(13,100)	26,201
	346,452	(115,484)	230,968

	2019		
	Before tax	Tax charge	After tax
	$'000	$'000	$'000
Items that may be subsequently reclassified to profit or loss:			
Realised losses on investment at fair value through other communication	139,934	(46,645)	93,289
Unrealised gains on investments at FVOCI	639,929	(213,310)	426,619
Item that will not be reclassified to profit or loss:			
Re-measurements of employment benefit obligations	74,817	(24,939)	49,878
	854,680	(284,894)	569,786

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30. Related Party Transactions and Balances

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

	2020 $'000	2019 $'000
Loans and leases		
Ultimate parent company	-	21,519
Fellow subsidiaries	351,581	136,072
Key management personnel	96,960	49,126
Other related entities	66,798	83,881
	515,339	290,598

	2020 $'000	2019 $'000
Loans to key management personnel and other related entities -		
Balance as at 1 January	290,598	209,097
Loans advanced	343,875	512,698
Loan repayments received	(151,120)	(436,793)
Interest charged	33,065	13,399
Interest received	(1,079)	(7,803)
Balance as at 31 December	515,339	290,598

The loans to key management personnel attract interest rates ranging between 3% - 18% and are repayable in the years 2021 – 2034. These loans are secured and are made on terms similar to those offered to other employees.

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30. Related Party Transactions and Balances (Continued)

	2020 $'000	2019 $'000
Other assets –		
Fellow subsidiaries	20,801	42,474
Customer deposits –		
Ultimate parent company	2,127,625	808,885
Fellow subsidiaries	3,952,116	4,011,058
Key management personnel	50,442	31,196
Other related entities	1,444,287	1,249,287
	7,574,470	6,100,426
Other liabilities –		
Fellow subsidiaries	19,040	98,104

(b) The statement of comprehensive income includes transactions, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2020 $'000	2019 $'000
Interest earned on loans and leases –		
Ultimate parent company	7,689	665
Fellow subsidiaries	21,832	7,479
Key management personnel	3,173	2,896
Other related entities	4,732	9,838
	37,426	20,878
Interest earned on deposits and other accounts –		
Ultimate parent company	2,480	2,480
Fellow subsidiaries	54,119	25,196
Key management personnel	250	270
Other related entities	242	65
	57,091	28,011

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30. Related Party Transactions and Balances (Continued)

	2020 $'000	2019 $'000
Interest incurred on customer deposits –		
Ultimate parent company	9,569	9,569
Fellow subsidiaries	83,280	45,796
Key management personnel	443	330
Other related entities	69,802	66,647
	163,094	122,342
Staff costs – key management personnel		
Directors	54,476	52,998
Senior executives	115,748	110,620
	170,224	163,618
Administration and other expenses –		
Ultimate parent company	205,782	205,782
Fellow subsidiaries	490,543	402,819
Directors' emoluments	358,243	241,915
	1,054,568	850,516

Other related entities primarily represent entities which are under the control of directors of the Bank.

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31. Reconciliation of Liabilities arising from Financial Activities

The table below details the movement in debt for each of the periods presented. Financing activities represent bank, leases and other loans, excluding bank overdrafts and amounts included as cash and cash equivalents:

	Other Borrowed Funds $'000	Lease Liabilities $'000	Total $'000
At 1 January 2019	1,194,551	627,623	1,822,174
Cash movements from financing activities -			
Loans received	206,965	-	206,965
Principal repayments	(341,442)	(98,466)	(439,908)
Interest expense	-	36,198	36,198
Foreign exchange adjustments	22,376	-	23,376
At 31 December 2019	1,082,450	565,355	1,647,805
Cash movements from financing activities -			
Loans received	1,080,611	-	1,080,611
Lease additions	-	182,111	182,111
Principal repayments	(992,813)	(136,940)	(1,129,753)
Interest expense	-	42,727	42,727
Foreign exchange adjustments	31,908	7,170	39,078
At December 2020	1,202,156	660,423	1,862,579

32. Commitments and Contingent Liabilities

Loan commitments
Loans approved but not disbursed at year end amounted to $444,310,000 (2019 – $1,159,154,000).

Contingent liabilities
Guarantees and letters of credit for which the Bank has an indirect obligation at year end amounted to $186,091,000 (2019 - $291,049,000).

33. Litigation, Claims and Assessments

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

In respect of claims asserted against the Bank, according to the principles outlined above, which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Bank which is immaterial to both its financial position and results of operations.