

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Jamaican dollars unless otherwise indicated)

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED
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31 March 2019

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INDEPENDENT AUDITOR'S REPORT

To the Members of National Export-Import Bank of Jamaica Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Export-Import Bank of Jamaica Limited (the Bank), which comprise the statement of financial position as at 31 March 2019 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2019, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

Responsibilities of Management and the Board of Directors for the Financial Statements

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

In preparing the financial statements, Management and the Board of Directors are 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 and the Board of Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Bank's Board of Directors are responsible for overseeing the Bank's financial reporting process.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Members of National Export-Import Bank of Jamaica Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Bank's financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that presents a true and fair view.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Members of National Export-Import Bank of Jamaica Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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.

Report on Additional Matters as requirements by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner so required.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young
Chartered Accountants
Kingston, Jamaica

19 July 2019

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Statement of Comprehensive Income

Year ended 31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 \$'000	2018 \$'000
Interest and fee income:			
Loans		616,288	538,114
Investments		20,618	50,628
		<u>636,906</u>	<u>588,742</u>
Interest and fee expense:			
Loans		(115,188)	(148,574)
Lines of credit		(26,204)	(7,169)
		<u>(141,392)</u>	<u>(155,743)</u>
Net interest income		495,514	432,999
Credit losses	3(a)	-	(38,054)
Expected credit gains	3(a)	59,320	-
		<u>554,834</u>	<u>394,945</u>
Other income:			
Dividend income		26,897	26,765
Fees and other charges		1,301	1,458
Gain on revaluation of investment property	18	44,573	-
Insurance premium		8,651	6,908
Other	5	123,985	54,784
		<u>205,407</u>	<u>89,915</u>
Operating Profit		<u>760,241</u>	<u>484,860</u>
Administration expenses	6	(536,961)	(438,389)
Foreign exchange losses		(96,317)	(33,575)
Profit before taxation		126,963	12,896
Taxation	8	(3,971)	3,795
Net profit for the year		<u>122,992</u>	<u>16,691</u>
Other Comprehensive (Loss)/Income:			
Items that may be subsequently reclassified to profit or loss:			
Unrealized gains on available-for-sale financial assets		-	11,294
Items that will not be reclassified to profit or loss:			
Remeasurement of pension and other employment benefit obligation, net of taxes	8	8,341	(146,352)
Net fair value losses on securities at fair value through other comprehensive income	8	(110,801)	-
Foreign exchange losses on securities at fair value through other comprehensive income	8	(2,653)	-
Total Other Comprehensive Loss		<u>(105,113)</u>	<u>(135,058)</u>
Total Comprehensive Income/(Loss)		<u>17,879</u>	<u>(118,367)</u>

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

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Statement of Financial Position

As at 31 March 2019

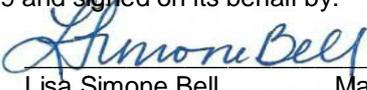
(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 \$'000	2018 \$'000
ASSETS			
Cash and deposits	9	797,510	1,570,839
Notes and other receivables	10	1,170,400	427,310
Notes discounted	11	2,176,642	2,591,325
Medium-term loans receivable	12	1,999,507	1,970,243
Demand and non-accrual loans	13	803,888	561,114
Investments	14	404,014	587,196
Letters of credit		-	338,623
Long-term loans receivable	15	22,909	28,429
Income tax recoverable		130,553	149,312
Deferred tax assets	20	47,260	27,363
Post-employment benefit asset	16	117,472	125,380
Property and equipment	17	57,497	53,747
Investment property	18	235,000	190,427
Total Assets		7,962,652	8,621,308
LIABILITIES			
Payables		83,197	84,285
Lines of credit	19	335,937	174,310
Loans payable	28	948,500	-
Long-term loans payable	21	2,435,786	3,728,704
Letters of credit		-	338,623
Post-employment benefit obligation	16	198,826	197,130
Total Liabilities		4,002,246	4,523,052
EQUITY			
Share capital	22	2,066,824	2,066,824
Capital reserve	23	352,626	352,626
Reserve fund	24	227,098	208,649
Reserve for trade credit insurance	25	7,802	7,802
Investment revaluation reserve	26	148,120	261,574
Property revaluation reserve		55,795	55,795
Retained earnings		1,102,141	1,144,986
Total Equity		3,960,406	4,098,256
Total Liabilities and Equity		7,962,652	8,621,308

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

Approved for issue on the Board of Directors on 19 July 2019 and signed on its behalf by:


 Gary Hendrickson Chairman


 Lisa Simone Bell Managing Director


 Norman Reid Audit Committee Chairman

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Statement of Changes in Equity

Year ended 31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

	Share Capital \$'000 (Note 22)	Capital Reserve \$'000 (Note 23)	Reserve Fund \$'000 (Note 24)	Reserve for Trade Credit Reserve \$'000 (Note 25)	Investment Revaluation Reserve \$'000 (Note 26)	Property Revaluation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 31 March 2017	2,066,824	352,458	206,145	7,802	250,280	55,795	1,281,161	4,220,465
Transfer to Reserve Fund (Note 24)	-	-	2,504	-	-	-	(2,504)	-
Capital Reserve	-	168	-	-	-	-	-	168
Net profit	-	-	-	-	-	-	16,691	16,691
Dividends paid (Note 31)	-	-	-	-	-	-	(4,010)	(4,010)
Other comprehensive (loss)/income, net of taxes:								
Unrealised fair value gain on available-for-sale investments	-	-	-	-	11,294	-	-	11,294
Remeasurement of pension and other employment benefit obligation	-	-	-	-	-	-	(146,352)	(146,352)
Balance at 31 March 2018	2,066,824	352,626	208,649	7,802	261,574	55,795	1,144,986	4,098,256
Expected Credit Loss adjustment on the adoption of IFRS 9 (Note 2)	-	-	-	-	-	-	(155,729)	(155,729)
Balance at 1 April 2018 - restated	2,066,824	352,626	208,649	7,802	261,574	55,795	989,257	3,942,527
Transfer to Reserve Fund (Note 24)	-	-	18,449	-	-	-	(18,449)	-
Net profit	-	-	-	-	-	-	122,992	122,992
Other comprehensive (loss)/income, net of taxes:								
Net fair value losses on securities measured at fair value through other comprehensive income	-	-	-	-	(110,801)	-	-	(110,801)
Foreign exchange losses on securities at fair value through other comprehensive income	-	-	-	-	(2,653)	-	-	(2,653)
Remeasurement of pension and other employment benefit obligation	-	-	-	-	-	-	8,341	8,341
Balance at 31 March 2019	2,066,824	352,626	227,098	7,802	148,120	55,795	1,102,141	3,960,406

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

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED
Statement of Cash Flows

Year ended 31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

	Notes	2019 \$'000	2018 \$'000
Cash Flows from Operating Activities			
Net profit after taxation		122,992	16,691
Adjustments for:			
Depreciation	17	11,091	11,979
Gain on disposal of property and equipment		(438)	(1,040)
Gain on revaluation of investment property	18	(44,573)	-
Foreign exchange losses		96,317	33,575
Interest and fee income		(636,906)	(588,742)
Dividend income		(26,897)	(26,765)
Interest and fee expense		141,392	155,743
Pension expense		35,516	12,557
Expected credit gains	3(a)	(59,320)	-
Taxation	8	3,971	(3,795)
		<u>(356,855)</u>	<u>(389,797)</u>
Changes in operating assets and liabilities -			
Notes and other receivables		(719,620)	(32,865)
Notes discounted		347,800	(588,917)
Medium-term loans receivables		(69,310)	19,939
Demand and non-accruals loans		(232,803)	83,084
Long-term loans receivable		5,445	910
Post-employment benefit		(14,791)	(8,689)
Payables		(1,088)	27,063
		<u>(1,041,222)</u>	<u>(889,272)</u>
Income tax paid and increase in withholding tax recoverable		(7,890)	(15,722)
Interest and fees received		644,349	563,761
Dividend received		26,897	26,765
Interest and fees paid		(142,345)	(157,207)
Net cash used in operating activities		<u>(520,211)</u>	<u>(471,675)</u>
Cash Flows from Investing Activities			
Purchase of property and equipment	17	(15,129)	(7,732)
Capital expenditure for investment property	18	-	(5,427)
Proceeds from disposal of property and equipment		726	1,080
Investments		(69,771)	5,611
Net cash used in investing activities		<u>(84,174)</u>	<u>(6,468)</u>
Cash Flows from Financing Activities			
Short-term loans and lines of credit		159,770	119,115
Long-term loans payable		(341,608)	(464,979)
Dividends paid to the Government of Jamaica	31	-	(4,010)
Net cash used in financing activities		<u>(181,838)</u>	<u>(349,874)</u>
Net decrease in cash and cash equivalents for year		(786,223)	(828,017)
Effect of foreign exchange rate changes on cash and cash equivalents		13,461	(31,148)
Cash and cash equivalents at beginning of year		<u>1,570,135</u>	<u>2,429,300</u>
Cash and Cash Equivalents at End of Year	9	<u>797,373</u>	<u>1,570,135</u>

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

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activity

National Export-Import Bank of Jamaica Limited (The Bank/EXIM) is a limited liability company incorporated and domiciled in Jamaica and is wholly owned by the Government of Jamaica (GOJ) through the Accountant General. The registered office is located at 85 Hope Road, Kingston 6 Jamaica.

The Bank provides financial services which include pre- and post-shipment financing, lines of credit and trade credit insurance and medium-term financing, which are aimed at the development of the productive sector. Specifically, its activities are geared towards the development of the export sector; however, it also assists other productive enterprises in the area of import substitution.

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 have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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

Certain new and amended standards and interpretations to existing standards became effective during the current financial year. These have impacted the Bank's accounting policies and/or financial disclosures as indicated below. The pronouncements were effective from 1 April 2018, unless otherwise indicated.

IFRS 9 Financial Instruments

IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The application of IFRS 9 changes the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting.

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)*****Standards, interpretations and amendments to published standards effective in the current year (continued)*****IFRS 9 Financial Instruments (continued)****(i) Classification and measurement of financial assets and financial liabilities**

An entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the fair value option, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in the profit or loss, unless presentation in the OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

(ii) Impairment

IFRS 9 requires entities to record expected credit losses (ECL) on all financial assets not carried at fair value through profit or loss. Entities are required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there is a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL either on a 12-month or lifetime basis.

(iii) Hedge accounting

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measurable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward - looking ECL approach. Since the adoption of IFRS 9, the Bank has been recording the allowance for expected credit losses for all loans and debt financial instruments not held at FVPL along with loan commitments. Equity instruments are carried at FV through OCI. See Note 2 (c)

The ECL allowance is based on the credit losses that are expected to arise over the life of the assets. The allowance is based on the twelve (12) months expected credit loss if there is no significant increase in credit risk since origination. The ECL was calculated on an individual basis.

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED
 Notes to the Financial Statements
 31 March 2019
 (Expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard establishes a five-step model to account for revenue arising from contracts with customers and also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Plan for Revenue Recognition.

The amendments:

- Clarify when a promised good or service is distinct within the context of the contract
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract
- Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

IFRS 15 did not have a material impact on the Bank's accounting policies and did not require retrospective adjustments.

Annual Improvements 2014-2016 Cycle

The amendments from the 2014-2016 annual improvements cycle are as follows:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments) - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Annual Improvements 2014-2016 Cycle (continued)

- IAS 28 Investments in Associates and Joint Ventures (Amendment) - Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice

The amendments clarify that:

- An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.
- This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. This interpretation is effective for annual periods beginning on or after 1 January 2018. The adoption of this interpretation had no impact on the Bank's financial statements.

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)*****Standards, interpretations and amendments to published standards effective in the current year (continued)*****IFRS 2 Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The amendments are not applicable as the Bank does not have share-based payments.

IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new Financial Instruments Standard, IFRS 9, before implementing the new Insurance Contracts Standard that the Board has developed to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are effective for annual periods beginning on or after 1 January 2018. These amendments were not applicable to the Bank.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight.

Early application of the amendments is permitted and must be disclosed. This amendment is effective for annual periods beginning on or after 1 January 2018. These amendments were not applicable to the Bank.

NATIONAL EXPORT-IMPORT BANK OF JAMAICA LIMITED

Notes to the Financial Statements

31 March 2019

(Expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)*****Standards, interpretations and amendments to published standards that are not yet effective***

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which are not yet effective, and which the Bank has not early adopted. The Bank is currently reviewing the impact that these standards will have on the Bank's operation, if they are deemed to be applicable. All applicable standards will be adopted on the effective date.

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

This amendment is effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)*****Standards, interpretations and amendments to published standards that are not yet effective (continued)*****Prepayment Features with Negative Compensation - Amendments to IFRS 9 (continued)**

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

This amendment is effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

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2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 *Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

This amendment is effective for annual periods beginning on or after 1 January 2019. The amendments must be applied prospectively. Early application is permitted and must be disclosed.

IFRS 16 Leases

The scope of this standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Lessees recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).
- Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
- Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

This standard is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. Early application is permitted, but not before an entity applies IFRS 15.

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2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

IFRS 3 Business Combination - Definition of a Business - Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 with earlier application permitted.

IFRS 17 Insurance Contracts

The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted.

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2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)*****Standards, interpretations and amendments to published standards that are not yet effective (continued)*****IAS 1 and IAS 8 - Definition of Material - Amendments to IAS 1 and IAS 8**

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020 and the impact of the adoption of this amendment on the financial statements of the Bank is being assessed.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments are not expected to have an impact on the financial statements.

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2. Significant Accounting Policies (Continued)**(a) Basis of preparation (continued)**

Standards, interpretations and amendments to published standards that are not yet effective (continued)

Annual Improvements 2015-2017 Cycle

The amendments from the 2015-2017 annual improvements cycle are as follows:

- IFRS 3 Business Combinations (Previously held Interests in a joint operation) - (effective 1 January 2019)
- IFRS 11 Joint Arrangements (Previously held Interests in a joint operation) - (effective 1 January 2019)
- IAS 12 Income Taxes (Income tax consequences of payments on financial instruments classified as equity) - (effective 1 January 2019)
- IAS 23 Borrowing Costs (Borrowing costs eligible for capitalization) - (effective 1 January 2019)

(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 the profit or loss in the statement of comprehensive income.

Changes in the fair value of monetary assets denominated in foreign currencies, analysed as translation differences resulting from the changes in amortised cost are recognised in the profit or loss in the statement of comprehensive income and other changes are recognised in the other comprehensive income in the statement of comprehensive income.

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2. Significant Accounting Policies (Continued)**(c) Financial assets****Policy applicable from 1 April 2018****Initial recognition and measurement**

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on settlement date or trade date.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All related transaction costs for financial assets recognised at fair value through profit of loss are expensed.

The Bank's financial assets include cash and short-term deposits, debt securities, equity securities, interest receivable and other loans and receivables.

Classification and subsequent measurement**Debt instruments and loans receivable**

Subsequent to initial recognition, the Bank's debt instruments are measured in accordance with the business models determined by the Bank's respective business units for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Bank classifies its debt instruments and loans receivable:

- (i) **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The carrying amounts of these assets are adjusted by any expected credit loss allowance recognised. In addition to certain debt securities, the Bank's loans and receivables are carried at amortised cost.
- (ii) **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the profit or loss in the statement of comprehensive income in the period in which it arises. The Bank may, on initial recognition, irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets held for trading, or are managed and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss.

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2. Significant Accounting Policies (Continued)

(c) Financial assets (continued)

Policy applicable from 1 April 2018 (continued)

Business model assessment

The Bank's business units determine their business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. Factors considered by the business units in determining the business model for a group of assets include:

- ▶ the stated policies and objectives for the group of assets and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets with the duration of any related liabilities or expected cash outflows or realising cash flows through sale of the assets;
- ▶ how performance of the group of assets is evaluated and reported to management;
- ▶ the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- ▶ the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

If cash flows after initial recognition are realised in a way that is different from original expectations, the business units do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

The solely payment of principal and interest (SPPI) test

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount). 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs, as well as a profit margin.

Where the business model is to hold assets and collect contractual cash flows or to collect contractual cash flows and sell, the Bank's business units assesses whether the financial assets' cash flows represent solely payments of principal and interest. In making this assessment, the business units considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. the definition of interest. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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 infrequent.

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Policy applicable from 1 April 2018 (continued)****Equity instruments**

Subsequent to initial recognition, the Bank measures all equity investments at fair value through other comprehensive income, and changes in the fair value of equity instruments are recognised in the statement of other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Policy applicable from 1 April 2018 (continued)****Derecognition of financial assets**

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received is recognised in the profit or loss, in the statement of comprehensive income.

Impairment of assets**Changes to the impairment determination**

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward - looking ECL approach. The Bank records an allowance for expected credit losses for all loans and debt financial instruments not held at FVPL along with loan commitments. Equity instruments are carried at FVOCI. See Note 3 (a) for detailed description of the Expected Credit Loss Model.

The ECL allowance is based on the credit losses that are expected to arise over the life of the assets, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. The 12 months' expected credit loss is the portion of the lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The impact of the initial application is disclosed in the table below in Note 2(c).

Financial liabilities

The adoption of IFRS 9 did not have any significant effect on the Bank's accounting policies related to liabilities as IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of liabilities.

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Impact of initial application of IFRS 9**

The Bank adopted IFRS 9 with a date initial application of 1 April 2018, which resulted in changes to the Bank's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets.

As permitted by the transitional provisions of IFRS 9, the Bank did not restate comparative amounts. The cumulative retrospective impact of applying the new requirements has been reflected in the Bank's opening statement of financial position as at 1 April 2018, as shown below. Also, for notes disclosures, the consequential amendments to IFRS 7 Financial instruments: Disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

	Audited 31 March 2018 \$'000	IFRS 9 Initial Application Adjustments \$'000	Restated 1 April 2018 \$'000
ASSETS			
Cash and deposits	1,570,839	(594)	1,570,245
Notes and other receivables	427,310	(772)	426,538
Notes discounted	2,591,325	(76,777)	2,514,548
Medium-term loans receivable	1,970,243	(82,337)	1,887,906
Demand and non-accrual loans	561,114	5,016	566,130
Investments	587,196	(150)	587,046
Letters of credit	338,623	-	338,623
Long-term loans receivable	28,429	(115)	28,314
Income tax recoverable	149,312	-	149,312
Deferred tax assets	27,363	-	27,363
Post-employment benefit asset	125,380	-	125,380
Property and equipment	53,747	-	53,747
Investment property	190,427	-	190,427
Total Assets	<u>8,621,308</u>	<u>(155,729)</u>	<u>8,465,579</u>

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Impact of initial application of IFRS 9 (continued)**

	Audited 31 March 2018 \$'000	IFRS 9 Initial Application Adjustments \$'000	Restated 1 April 2018 \$'000
LIABILITIES			
Payables	84,285	-	84,285
Lines of credit	174,310	-	174,310
Long-term loans payable	3,728,704	-	3,728,704
Letters of credit	338,623	-	338,623
Post-employment benefit obligation	197,130	-	197,130
Total Liabilities	<u>4,523,052</u>	<u>-</u>	<u>4,523,052</u>
EQUITY			
Share capital	2,066,824	-	2,066,824
Capital reserve	352,626	-	352,626
Reserve fund	208,649	-	208,649
Reserve for trade credit insurance	7,802	-	7,802
Investment revaluation reserve	261,574	-	261,574
Property revaluation reserve	55,795	-	55,795
Retained earnings	1,144,986	(155,729)	989,257
Total Equity	<u>4,098,256</u>	<u>(155,729)</u>	<u>3,942,527</u>
Total Liabilities and Equity	<u>8,621,308</u>	<u>(155,729)</u>	<u>8,465,579</u>

All adjustments in the tables above were as a result of expected credit losses and not relating to classification and measurement.

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Policy applicable prior to 1 April 2018**

The Bank classifies its financial assets in the available for sale and loans and receivables categories. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category.

Regular purchases and sales of financial assets are recognised on the settlement date – the date on which an asset is delivered to or by the Bank. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of investments classified as available-for-sale are recognised in investment revaluation reserve in equity.

Loans and receivables are carried at amortised cost using the effective interest rate method. The Fixed Rate Accreting Notes (FRANS) described in Note 14 have been classified within this category. The instruments are accounted for as being acquired at a discount of 22.2%. As noted in Note 2(p), the effective interest rate method will be used to calculate the applicable interest for this instrument, incorporating the discount that will be amortised over its tenure.

When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve in equity are included in the profit or loss in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss in the statement of comprehensive income when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Financial assets are assessed at each statement of financial position date for objective evidence of impairment. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate.

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2. Significant Accounting Policies (Continued)**(c) Financial assets (continued)****Policy applicable prior to 1 April 2018 (continued)**

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the other comprehensive income in the statement of comprehensive income – is removed from investment revaluation reserve in equity and recognised in the profit or loss in the statement of comprehensive income. Impairment losses recognised in profit or loss in the statement of comprehensive income on equity instruments are not reversed through the other comprehensive income in the statement of comprehensive income.

(d) Fair value measurement

The Bank measures financial instruments and non-financial assets at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. See Note 29

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2. Significant Accounting Policies (Continued)

(e) Loans and advances and provisions for credit losses

Loans and advances are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any origination fees and transaction costs, and subsequently measured at amortised cost using the effective interest rate method.

Policy applicable prior to 1 April 2018

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the statement of financial position date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and the current economic climate in which the borrowers operate.

(f) Customers' liability under letters of credit

Where the Bank is the primary obligor under letters of credit, the amounts are reported as a liability on the statement of financial position. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset.

(g) Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the items can be measured reliably.

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

Office improvements	10 years
Motor vehicles	5 years
Equipment, furniture and fixtures	10 years
Computers	3 years

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2. Significant Accounting Policies (Continued)**(g) Property and equipment (continued)**

Gains or losses on disposal of property and equipment are determined by reference to their carrying amount and are included in administration expenses in the profit or loss in the statement of comprehensive income.

Repairs and maintenance expenses are charged to the profit or loss in the statement of comprehensive income during the financial period in which they are incurred.

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

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(h) Investment property

Investment property is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value. The fair value is determined by an independent valuator every two (2) years and during the intervening period by the Bank using in-house valuation method.

Change in fair value is recorded in the profit or loss in the statement of comprehensive income.

An investment property is de-recognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated on the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the statement of comprehensive income in the period in which the property is de-recognised.

The property rental income earned by the Bank from its investment property under an operating lease is recorded in the profit or loss in the statement of comprehensive income.

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

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the profit or loss in the statement of comprehensive income on a straight-line basis over the lease term.

Lessor

Leases where the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income is recognised as revenue in the profit or loss in the statement of comprehensive income on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

(j) Securities purchased under resale agreements

Securities purchased under resale agreements are treated as collateralised financing transactions, which may result in credit exposure in the event that the issuer of the underlying security to the transaction is unable to fulfill its contractual obligations. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(k) Cash and deposits

Cash and deposits comprise cash at bank and on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less net of bank overdraft.

(l) Staff loan receivables

Receivables are carried at anticipated realisable value less expected credit losses.

(m) Borrowings

Borrowings are recognised initially as the proceeds are received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any differences between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss in the statement of comprehensive income over the period of the borrowings using the effective yield method.

(n) Payables

Payables are recorded at cost. No interest is accrued on outstanding balances, as these are usually settled within a short period of time during which any interest charged would be immaterial.

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2. Significant Accounting Policies (Continued)**(o) Employee benefits***Pension obligations*

The Bank operates a defined benefit plan. The 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.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at reporting date and the fair value of the plan assets, together with adjustments for actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The defined benefit obligation is measured at the present value of the estimated future outflows using discount rates based on market yields on government securities that have terms to maturity approximating the term of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to other comprehensive income in equity in the period in which they arise.

Past-service costs are recognised immediately in profit or loss in the statement of comprehensive income.

Other post-employment obligations

The entitlement to these benefits is usually based on the employee remaining in service up to retirement 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. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement 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 the 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 statement of financial position date are discounted to present value.

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2. Significant Accounting Policies (Continued)**(p) Income and expense recognition***Interest income and expense*

Interest income and expense are recognised in the profit or loss in the statement of comprehensive income for all interest-bearing instruments using the effective interest rate method.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- ▶ Purchased or originated credit-impaired financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- ▶ Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortized cost i.e. net of the expected credit loss provision.

Fee income

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

Dividend income

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

(q) Income taxes

Taxation expense in the profit or loss 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 reporting date.

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 and substantively 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.

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2. Significant Accounting Policies (Continued)**(q) Income taxes (continued)**

Current and deferred taxes are recognised as income tax expense or benefit in the profit or loss in the statement of comprehensive income except, where they relate to items recorded in shareholders' equity, they are also charged or credited to shareholders' equity.

(r) Trade credit insurance

Trade credit insurance contracts are financial guarantee contracts which require the issuer to make specified payments to reimburse the holder of the contract for a loss they incur because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. These amounts are recognised initially at fair value and subsequently remeasured at the higher of the specified payment obligation under the contract or the initial amount less any subsequent cumulative amortisation.

(s) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets

Financial assets comprise cash and cash equivalents, notes and other receivables, notes discounted, loans receivable, demand and non-accrual loans, investment securities, letters of credit, long-term loans receivables and securities purchased under resale agreements. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial liabilities

Financial liabilities comprise long and short-term loans payable, letters of credit and payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The fair values of the Bank's financial instruments are discussed in Note 29.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Equity instrument issued by the Bank are recorded at the proceeds received, net of direct issue costs.

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 Bank's 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 Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework and has established several committees with specific areas of responsibility for monitoring, evaluating and ensuring compliance. In keeping with the Bank's Credit Policy Guidelines, the Board has established Credit Committees both at the Managerial and Board levels to assess the risk exposure to which the Bank may be exposed.

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3. Financial Risk Management (Continued)

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. To bolster these activities, the Bank instituted an Enterprise Risk Management Framework (ERM) system which, among other things, provides the Bank with a risk management framework and embeds risk management principles and practices within the organisation. The main objectives of the ERM are to assist in reducing the number of operational, financial, strategic, compliance and other related risks.

The Bank, through its training and management standards and procedures, ensures that a disciplined and constructively controlled environment exists in which all employees understand their roles and obligations.

The Bank has developed Anti-Money Laundering (AML) and Anti-Terrorist Financing (ATF) Policies and Procedures designed to prevent or detect any involvement in money laundering and financing of terrorism in accordance with the relevant statutes. The Compliance Officer is responsible for ensuring the effective implementation of the established policies, programmes, procedures and controls to achieve the objectives, and is required to prepare and submit a comprehensive report to the Board of Directors on a semi-annual basis. This report should include an overview and evaluation of the overall effectiveness of the Bank's anti-money laundering and anti-terrorism financing framework as well as the effectiveness of the AML/ATF measures implemented under each of the operational areas and/or product and service types.

The Bank's Audit and Conduct Review Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Conduct Review Committee is assisted in these functions by Internal Audit, which undertakes both regular and ad hoc reviews of risks, management controls and procedures, the results of which are reported to the Audit and Conduct Review Committee.

The Bank is exposed to credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

(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 an important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off Statement of Financial Position financial instruments such as loan commitments. 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 by monitoring exposures in relation to such limits.

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3. Financial Risk Management (Continued)**(a) Credit risk (continued)**

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee. A separate Management Credit Committee (MCC), chaired by the Managing Director, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with the Senior Manager's Group, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Managing Director and Manager, Risk & Compliance. Larger facilities require approval by the MCC and the Board of Directors, as appropriate.
- Reviewing and assessing credit risk. MCC assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, and industries (for loans and advances).
- Developing and maintaining risk ratings in order to limit exposures according to the degree of risk of financial losses faced and to focus management on the attendant risks. The risk rating system is used in determining where impairment provisions may be required against specific credit exposures.

The responsibility for setting risk ratings lies with the MCC. Risk grades are subject to regular reviews by the MCC such as:

- Reviewing compliance of business units with agreed exposure limits. Reports are provided to the Bad Debt Committee, at least annually, on the credit quality of the loan portfolios and appropriate corrective action taken.
- Providing advice, guidance and specialist skills to analysts to promote best practice throughout the Bank in the management of credit risk.

The Trade Financing and Risk Management division (TFRM) is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors.

The division has credit analysts supervised by the Manager of the division who reports on all credit related matters to the MCC for monitoring and controlling all credit risks in its portfolios, including those subject to Board approval. The TFRM is responsible for the quality and performance of the Bank's credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Board approval.

Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are implemented regarding the acceptability of different types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. The principal collateral types for loans and advances to customers are:

- Mortgages over real estate;
- Guarantee, Promissory Note or other endorsed instruments with recourse, from the Bank of Jamaica, the Government of Jamaica or an Approved Financial Institution
- Negotiable instruments including Treasury Bills, Cash Deposits and Certificates of Deposits;
- Non-negotiable instruments including Debentures, Bills of Sale, Assignment of Receivables,
- Assignment of Stocks in publicly listed companies, Supported Personal Guarantees and Corporate Guarantees, whether supported or unsupported.

Estimates of fair value of collateral are assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

The Bank's credit risk management policies include requirements relating to collateral valuation and management, including verification requirements and legal certainty. Valuations are updated periodically depending upon the nature of the collateral.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its periodic review of loan accounts in arrears. Policies are in place to monitor the existence of undesirable concentration in the collateral supporting the Bank's credit exposure.

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

The table below represents a worst case scenario of credit risk exposure to the Bank at reporting date, without taking account of any collateral held or other credit enhancements. Credit risk exposures are as follows:

	Maximum exposure	
	2019	2018
	\$'000	\$'000
Cash and deposits (Note 9)	797,510	1,570,839
Notes receivable (excluding prepayment)	1,160,620	400,641
Notes discounted (Note 11)	2,176,642	2,591,325
Medium-term loans receivable (Note 12)	1,999,507	1,970,243
Demand and non-accruals loans (Note 13)	803,888	561,114
Investments (Note 14)	100,775	170,503
Long-term loans receivable (Note 15)	22,909	28,429
Other receivables (Note 10)	824	18,168
	7,062,675	7,311,262

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3. Financial Risk Management (Continued)**(a) Credit risk (continued)*****Loans*****Risk Rating Probability**

Customers of the Bank are assigned risk ratings of 1 to 9 with 1 being the lowest default risk and 9 being the highest. The impaired ratio of loans of similar age were grouped and analyzed by utilizing three different mathematical methods as follows:

- Arithmetic average
- Weighted average
- Geometric average

The risk rating code is a weighted average of four (4) fundamental considerations:

- Customer's finance structure and performance
- Customer's experience with the Bank and other creditors
- Customer's management structure and stability
- Customer's security to support loans from the Bank

These codes are used to determine the probability rate table to apply to IFRS 9 computations. They are also used to determine significant increase in credit risk.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans (continued)

Credit Quality

Upon approval of a loan application, each submission must carry a recommendation on the risk rating class of the applicant. The risk rating guidelines are as follows:

Risk Ratings	Industry Status	Management	Financial Performance	Funding	Overall Status
Class 1 Highest Quality	Favourable Industry trends.	Strong management with depth.	Business with high liquidity, excellent financial conditions and history of stable and predictable earnings.	Available sources of alternate funding.	Could generally qualify for credit from lenders without any form of security.
Class 2 Good Quality	Favourable Industry trends.	Strong management.	Has good liquidity with history of stable and predictable earnings. However, earnings are more cyclical.	Moderate availability of alternate sources of funding in periods of economic distress.	Has strong present and future earnings potential, and could qualify for credit from lenders without any form of security.
Class 3 Satisfactory Quality	Stable.	Capable management.	Has fair liquidity and a reasonable financial condition. Earnings may be erratic; a satisfactory repayment is expected, but not assured under all circumstances.	Modest debt capacity.	Business is less like to qualify for credit from lenders without any form of security.
Class 4 Fairly Satisfactory Quality	May be cyclical.	Adequate to good management.	Has fair liquidity, but with less than satisfactory financial conditions. Reflects the potential to grow and improve, given the necessary financial support.	Marginal debt capacity.	Not likely to qualify for loans from lenders without security. Unlikely to be able to sustain major business setback.
Class 5 Below Average Quality.	May be cyclical or company is unable to compete effectively.	Generally good with some management weakness.	Has poor liquidity, high leverage and erratic earnings or losses. The primary source of repayment is no longer realistic.	Asset or collateral liquidation may be the only source of repayment. Loans are marginal and require continuing and close supervision by responsible loan officer.	Not eligible for EXIM Bank financing
Class 6 Poor quality	May be cyclical or company is unable to compete effectively.	Some management weaknesses or company not performing.	Capital Base and Cash Flow are insufficient to support the level of borrowing. Sources of repayment are not readily identifiable.	Real possibility of full loss exists.	Not eligible for EXIM financing.
Recourse Code "9" (ICBS)					These are loans which have been assigned to the Legal Division for recovery.

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3. Financial Risk Management (Continued)**(a) Credit risk (continued)*****Loans (continued)***Credit Quality (continued)

The Bank groups its loans into Stage 1, Stage 2 and Stage 3 on a customer basis i.e. where a customer has multiple loans, once one loan had defaulted all loans are placed in Stage 3.

- Stage 1 The Bank recognizes an allowance based on twelve (12) months ECLs. Stage 1 Loans include loans reclassified from Stage 2 where the risk has Improved. Loans are not in arrears for more than thirty (30) days and have credit risk rating of 1-4.
- Stage 2 When a loan has shown a significant increase in credit risk since origination. The Bank records an allowance for lifetime expected credit losses. This stage also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 3 and they have arrears for over thirty (30) days but less than ninety (90) days. Have initial credit risk rating of five (5).
- Stage 3 Loans that are considered credit impaired and an allowance for lifetime is expected as credit losses. Loans in default over ninety (90) days and have a credit risk rating of six (6) and above.

In measuring ECL in accordance with IFRS 9 forward-looking information is considered.

The Bank establishes provisions for credit losses that are expected to arise over the life of the assets.

Economic Indicators

An analysis of the correlation of the probabilities of default with key economic indicators was performed as follows:

- Growth in respective industries
- Gross domestic product
- Gross National income levels in Jamaica
- Leading five (5) nations that directly contribute to tourist arrival in Jamaica.
- Jamaica's annual inflation rate
- Value of United States dollar versus Jamaican dollar
- National employment rate

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3. Financial Risk Management (Continued)**(a) Credit risk (continued)*****Loans (continued)*****Credit Risk Grade**

Pertinent information is collected on the borrower at the time of application. Some of which is listed below:

- (a) Industry Status,
- (b) Management of Company
- (c) Financial Performance
- (d) Environmental Risk,
- (e) Value & Saleability of Collateral
- (f) Analysis of Debt
- (g) Repayment History.

These are supplemented with external data such as credit bureau scoring information on individual borrowers and companies.

Incorporation of Forward Looking Information

The assessment of significant increase in credit risk and the calculation of the ECL incorporates forward looking information along with key economic indicators impacting credit risk and expected credit risk for each portfolio.

The impact of these economic variables on the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) is determined by performing trend analysis and comparing historical information with forecast macroeconomic data to decide the impact on default rates and on LGD and EAD.

The Bank performs scenarios considering the expected impact of interest rates unemployment rates, gross domestic products on a yearly basis.

The Bank uses three Quantitative and Qualitative criteria to determine whether there has been a significant increase in credit risk.

a) Quantitative Test based on movement in Probabilities of Default (PD), Credit risk is deemed to increase where the probability of default on a security or loan is one (1) and the credit risk rating is above five (5).

b) Qualitative Indicators

- Significant development in the industry in which borrower operates
- Issues or developments which could compromise the bank's ability to realize the security.

c) Loans past due more than thirty (30) days

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3. Financial Risk Management (Continued)
(a) Credit risk (continued)
Loans (continued)

Table 1: Stages, Description and Course of Action for Past Due Loans		
Stages	Description	Course of Action
a) Stage 1 recognizes expected credit losses within the next 12 months	These are Clients: <ul style="list-style-type: none"> (i) with performing loans without signs of credit impairment, that is, loans that are not in arrears for more than 30 days. (ii) that have a credit risk rating of 1- 4 (iii) loans formerly in stages 2 and 3 with significant improvement in credit risk 	<ul style="list-style-type: none"> (i) These accounts are monitored by Trade and Commercial Lending Division (ii) The regularity of monitoring will be in keeping with requirement of the Bank's Credit Policy.
b) Stage 2 - recognizes lifetime expected credit losses.	These are Clients with loans that: <ul style="list-style-type: none"> (i) have signs of credit impairment i.e. it is improbable that the Bank will collect all of the outstanding principal and interest (ii) are sub-performing loans which have been in arrears for over 30 days but less than 90 days at least once. (iii) loans that have an initial credit risk rating of 5 (iv) Loans formerly in Stages 1 and 3 with deterioration and improvement in credit risk respectively 	<ul style="list-style-type: none"> (i) These accounts are monitored by the Trade and Commercial Lending Division. (ii) The regularity of the monitoring will be in keeping with requirements of the Bank's Credit Policy. (iii) Once the account becomes 90 days past due, i.e. is in default, the entire portfolio of loans for the Client is to be referred to the Risk Management Division for Collection in keeping with the Credit Policy.

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3. Financial Risk Management (Continued)
(a) Credit risk (continued)
Loans (continued)

Table 1: Stages, Description and Course of Action for Past Due Loans (continued)		
Stages	Description	Course of Action
c) Stage 3 - recognizes lifetime expected credit losses	These are Clients: <ul style="list-style-type: none"> (i) with non-performing loans/loans in default i.e. with arrears over 90 days. (ii) with loans with serious credit impairment (iii) with a history of arrears. (iv) with loans that have a credit risk rating of 6 and above (v) loans formerly in Stages 1 and 2 with a significant increase in credit risk 	<ul style="list-style-type: none"> (i) These accounts are handled by the Risk Management and Compliance and Legal & Corporate Secretarial Divisions. (ii) The Risk Management Division will act with the view of effecting collections by way of immediate payment or payment arrangement acceptable to the Bank. (iii) If #2 is not achieved within 30 days from the account being referred to the Risk Management Division (i.e. 120 cumulative days delinquent), the account must be passed to the Legal Department for liquidation of the collateral and effecting of any other legal actions required to recover the Banks funds. <p>All other actions on these accounts will be dealt with in keeping with the Bank's Credit Policy.</p>

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3. Financial Risk Management (Continued)
(a) Credit risk (continued)
Loans (continued)
Write-off policy—
Write-offs may be considered/requested in cases when:

- a. The Bank has disposed of all securities held
- b. There is compromised security value due to, for example, market conditions, delays in recovery process/sale of security
- c. The business has ceased to be a going concern or is facing collapse
- d. The business has failed

One or more of the conditions at (a)-(d) above having been satisfied, the Bank will also write off loan accounts in instances when delinquency exceeds twelve (12) consecutive months.

Additionally, if the provisions/estimated credit losses equate 80% or more of the General Ledger balance, then the loan may be written off.

The credit quality of loans are summarised as follows:

	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Loans receivable as at 31 March 2018	3,676,900	997,909	895,111	5,569,920
Impact of IFRS 9 adoption	(69,818)	(3,202)	(81,965)	(154,985)
Loans receivable as at 1 April 2018	<u>3,607,082</u>	<u>994,707</u>	<u>813,146</u>	<u>5,414,935</u>

	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Loans receivable (Gross) as at 31 March 2019	3,728,603	1,208,417	1,404,710	6,341,730
Expected credit losses	(23,110)	(9,759)	(144,471)	(177,340)
Loans receivable as at 31 March 2019	<u>3,705,493</u>	<u>1,198,658</u>	<u>1,260,239</u>	<u>6,164,390</u>

Included in the analysis above are renegotiated loans of \$306,067,396 (2018 - \$83,002,000).

The fair value of collateral that the Bank held as security for individually impaired loans was \$2,138,634,000 (2018 - \$1,140,484,000).

There are no financial assets other than loans that are considered past due.

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans (continued)

Analysis of Expected Credit Losses

	2019			
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Notes and other receivables	813	498	-	1,311
Notes discounted	4,343	93	52,009	56,445
Medium-term loans receivable	17,879	9,168	-	27,047
Demand and non-accrual loans	-	-	92,462	92,462
Long-term loans receivables	75	-	-	75
	23,110	9,759	144,471	177,340

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loans (continued)

Expected Credit Loss Model

- Expected impairment (i.e. expected credit loss, ECL) is derived by multiplying loans and investment facility balance by the Probability of ECL for each month and each given exposure. The projected credit loss in each future month is discounted to the present value using a discount rate between the mid range of current market bond yield and the effective interest rate for the financial assets.
- In estimating the probability of default, EXIM's loan portfolio was grouped into groups of similar risk profile (i.e. having the same likelihood of default).

Industry Groupings

<u>Industry</u>	<u>Group No.</u>
Manufacturing	2
Agro Processing	4
Services	1
Mining	5
Distribution	3
Tourism	1
Food & Beverage	5
Animation & IT	1
Staff	11

For each group probabilities were determined based on classification of loans (scheduled or unscheduled). Repayment periods were split into calendar quarters and expected amounts in each quarter completed based on the loan details. Shortfalls were compared with corresponding expected payments. This was done over a ten (10) year period and normalized to remove impact of any special event. The annualized quarterly impairment ratio within each cohort and age bucket was then computed using the following formula:

$$\frac{\text{Impairment amount}}{\text{Expected amounts}}$$

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3. Financial Risk Management (Continued)
(a) Credit risk (continued)
Loans (continued)

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

	2019	2018
	\$'000	\$'000
Agro Processing	1,650,172	1,709,283
Food and Beverage	81,089	120,977
Textiles and Apparel	8,791	11,484
Manufacturing	1,661,762	1,085,331
Distribution	558,956	437,200
Mining	530,911	447,006
Services and ICT	1,314,373	1,190,016
Tourism	315,973	525,261
Other	42,363	43,362
	<u>6,164,390</u>	<u>5,569,920</u>

Movement in the provision for probable loan losses:

	2019	2018
	\$'000	\$'000
At beginning of year	265,786	107,680
Provision made during the year	-	79,051
Bad debt recovered	(29,320)	(40,997)
IFRS 9 –Reduction in provision	(59,126)	-
	<u>177,340</u>	<u>145,734</u>
Provision/adjustments written-off	-	(34,933)
	<u>177,340</u>	<u>110,801</u>
Additional provision on the adoption of IFRS 9 as at 1 April 2018	-	154,985
	<u>177,340</u>	<u>265,786</u>

	2019
	\$'000
IFRS 9 – Reduction in provision for Loans receivable	(59,126)
IFRS 9 – Reduction in provision-other	(194)
	<u>(59,320)</u>

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3. Financial Risk Management (Continued)**(a) Credit risk (continued)*****Loans (continued)***

Provision for probable loan losses comprises:

	2019	2018
	\$'000	\$'000
Notes discounted (Note 11)	56,445	8,368
Demand and non-accrual loans (Note 13)	92,462	102,433
Medium-term loans receivable (Note 12)	27,047	-
Notes receivable (Note 10)	1,311	-
Long-term loans receivable (Note 15)	75	-
	<u>177,340</u>	<u>110,801</u>

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counter party to honour its obligation to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through Approved Financial Institutions (AFIs).

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3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Debt securities

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

	2019	2018
	\$'000	\$'000
Government of Jamaica (Note 14)	11,150	11,017
Securities purchased under agreements to resell (Note 14)	89,730	159,486
Short-term deposits (Note 9)	508,865	917,515
	<u>609,745</u>	<u>1,088,018</u>
Debt securities (Gross) as at 31 March 2018		1,088,018
Impact of IFRS 9 adoption – short-term deposits		(594)
Impact of IFRS 9 adoption – Government of Jamaica and Securities purchased under agreements to resell		(150)
Debt securities as at 1 April 2018		<u>1,087,274</u>
Debt securities (Gross) as at 31 March 2019		609,745
Impact of IFRS 9 adoption		(435)
Debt securities as at 31 March 2019		<u>609,310</u>

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3. Financial Risk Management (Continued)
(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.

Management of liquidity risk

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Treasury Unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities, and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of the Bank are met through encashment of investments to cover any short-term fluctuations. The accessing of loans is used to address longer term funding.

A cash flow budget is prepared at the beginning of the year and any expected cash shortfall is identified.

The Bank then seeks additional funding to address funding needs. The daily liquidity position is monitored by the Treasury/Disbursement Units. The TFRM Division is required to submit to Treasury all expected disbursements at least two days before disbursement.

Financial liabilities cash flows

The tables below present the undiscounted cash flows payable, including principal and interest, of the Bank's financial liabilities, based on contractual repayment obligations and maturity dates.

	2019				
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
Lines of credit	335,937	-	-	-	335,937
Loans payable	-	994,820	-	-	994,820
Long-term loans payable	215,673	419,040	909,954	1,000,000	2,544,667
Payables	83,197	-	-	-	83,197
Total financial liabilities	634,807	1,413,860	909,954	1,000,000.	3,958,621

	2018				
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
Lines of credit	174,310	-	-	-	174,310
Long-term loans payable	240,769	634,964	3,051,985	98,598	4,026,316
Payables	84,285	-	-	-	84,285
Total financial liabilities	499,364	634,964	3,051,985	98,598	4,284,911

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3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Assets available to meet all of the liabilities include cash and cash equivalents, investment securities, securities purchased under agreements to resell. The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions.

(c) Market risk

The Bank takes on exposure to market risks, 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.

Currency risk

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

The Bank ensures that the net exposure is kept to an acceptable level by monitoring the level of its exposure on a daily basis against approved limits. The Bank further manages this risk by maximizing foreign currency earnings and holding foreign currency balances.

The tables below summarise the currencies in which the Bank's assets and liabilities are denominated as at year end.

	JA\$	US\$	CAN\$	TOTAL
	J\$000	J\$000	J\$000	J\$000
	2019			
Financial assets				
Cash and deposits	206,094	589,842	1,574	797,510
Notes and other receivables	38,018	209,917	922,465	1,170,400
Notes discounted	964,146	1,212,496	-	2,176,642
Medium-term loans receivable	1,551,623	447,884	-	1,999,507
Demand and non-accrual loans	645,670	158,218	-	803,888
Investments	27,252	376,762	-	404,014
Long-term loans receivable	22,909	-	-	22,909
Total financial assets	3,455,712	2,995,119	924,039	7,374,870
Financial liabilities				
Lines of credit	-	-	335,937	335,937
Loans payable	-	948,500	-	948,500
Long-term loans payable	1,395,786	1,040,000	-	2,435,786
Payables	83,197	-	-	83,197
Total financial liabilities	1,478,983	1,988,500	335,937	3,803,420
Net financial position	1,976,729	1,006,619	588,102	3,571,450

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3. Financial Risk Management (Continued)
(c) Market risk (continued)
Currency risk (continued)

	JA\$ J\$'000	US\$ J\$'000	CAN\$ J\$'000	Total J\$'000
	2018			
Financial assets				
Cash and deposits	836,831	728,691	5,317	1,570,839
Notes and other receivables	2,175	252,340	172,795	427,310
Notes discounted	1,197,268	1,394,057	-	2,591,325
Medium-term loans receivable	1,264,470	705,773	-	1,970,243
Demand and non-accrual loans	552,533	8,581	-	561,114
Investments	94,919	492,277	-	587,196
Letters of credit	-	338,623	-	338,623
Long-term loans receivable	28,429	-	-	28,429
Total financial assets	3,976,625	3,920,342	178,112	8,075,079
Financial liabilities				
Lines of credit	-	-	174,310	174,310
Long-term loans payable	1,227,594	2,501,110	-	3,728,704
Letters of credit	-	338,623	-	338,623
Payables	84,285	-	-	84,285
Total financial liabilities	1,311,879	2,839,733	174,310	4,325,922
Net financial position	2,664,746	1,080,609	3,802	3,749,157

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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.

Currency	Change in Currency Rate	Effect on Pre-tax Profit	Change in Currency Rate	Effect Profit on Pre-tax
	2019 %	\$'000	2018 %	\$'000
	Devaluation			
USD	4	40,265	5	54,030
CAN	4	23,524	5	190
	Revaluation			
USD	2	(20,133)	1	(10,806)
CAN	2	(11,762)	1	(38)

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3. Financial Risk Management (Continued)
(c) Market risk (continued)
Interest rate risk

Interest rate risk is the risk that the value of 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.

The Bank's interest rate risk policy requires it to manage interest rate risk by monitoring the maturities of its interest bearing financial assets and interest bearing financial liabilities on a daily basis.

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

	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-Rate Sensitive \$'000	TOTAL \$'000
	2019					
Cash and deposits	797,510	-	-	-	-	797,510
Notes and other receivables	966,939	203,152	309	-	-	1,170,400
Notes discounted	948,941	1,216,650	11,051	-	-	2,176,642
Medium-term loans receivables	1,232	283,290	1,713,374	-	1,611	1,999,507
Demand and non-accrual loans	-	-	-	-	803,888	803,888
Investments	-	89,625	11,150	-	303,239	404,014
Long-term loans receivable	-	-	22,909	-	-	22,909
Total financial assets	2,714,622	1,792,717	1,758,793	-	1,108,738	7,374,870
Loans payable	-	948,500	-	-	-	948,500
Long-term loans payable	200,081	294,032	939,007	1,002,666	-	2,435,786
Letters of credit	335,937	-	-	-	-	335,937
Payables	-	-	-	-	83,197	83,197
Total financial liabilities	536,018	1,242,532	939,007	1,002,666	83,197	3,803,420
Total interest repricing gap	2,178,604	550,185	819,786	(1,002,666)	1,025,541	3,571,450
Cumulative gap	2,178,604	2,728,789	3,548,575	2,545,909	3,571,450	

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3. Financial Risk Management (Continued)
(c) Market risk (continued)
Interest rate risk (continued)

	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-Rate Sensitive \$'000	Total \$'000
	2018					
Cash and deposits	1,570,839	-	-	-	-	1,570,839
Notes and other receivables	166,535	260,430	-	345	-	427,310
Notes discounted	1,595,735	965,397	30,193	-	-	2,591,325
Medium-term loans receivables	3,394	23,553	1,943,150	-	146	1,970,243
Demand and non-accrual loans	-	-	-	-	561,114	561,114
Investments	-	159,486	-	11,017	416,693	587,196
Letters of credit	-	-	-	338,623	-	338,623
Long-term loans receivable	92	172	8,406	19,759	-	28,429
Total financial assets	3,336,595	1,409,038	1,981,749	369,744	977,953	8,075,079
Lines of credit	174,310	-	-	-	-	174,310
Long-term loans payable	194,307	295,430	2,642,046	596,921	-	3,728,704
Letters of credit	-	-	-	338,623	-	338,623
Payables	-	-	-	-	84,285	84,285
Total financial liabilities	368,617	295,430	2,642,046	935,544	84,285	4,325,922
Total interest repricing gap	2,967,978	1,113,608	(660,297)	(565,800)	893,668	3,749,157
Cumulative gap	2,967,978	4,081,586	3,421,289	2,855,489	3,749,157	

The Bank's interest rate risk arises from investments held, loan and advances to clients, and borrowings.

At the end of the reporting period, all investments held by the Bank were fixed rate instruments which the Bank intends to hold to maturity. Interest rates on all loans extended are fixed. The objective of the Bank is to support the productive sector and, as such, the Bank is not quick to vary interest rates extended to its customers.

Low cost funding is obtained from specialized institutions and the Government of Jamaica. Rates on loans are usually fixed and lenders are slow to vary interest rates applied to the loans.

The Bank's income and operating cash flows are not substantially dependent on changes in market interest rates.

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Notes to the Financial Statements

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3. Financial Risk Management (Continued)**(c) Market risk (continued)*****Price risk***

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank is exposed to equity price risk because of equity investments held and classified on the statement of financial position as available for sale under IAS 39 in 2018 and at fair value through other comprehensive income under IFRS 9 in 2019. The Bank is not exposed to commodity price risk.

The impact of a 10% change in the quoted prices for these equities would be an increase or decrease in the carrying value of \$30,324,000 (2018 - \$41,669,000) in equity, through other comprehensive income.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with the overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards of the Bank for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Conduct Committee and senior management of the Bank.

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3. Financial Risk Management (Continued)**(e) Capital management**

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

- (i) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide benefits for the shareholder and other stakeholders; and
- (ii) To maintain a strong capital base to support the development of its business.

The allocation of capital between specific operations and activities is driven by the Bank's Strategic Plan and Budget approved by the Board of Directors, the desire to fulfill the Bank's mandate, and support by the Bank for the Government's mission to enhance growth and development.

The policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There were no changes to the Bank's approach to capital management during the year, and the Bank is not subject to externally imposed capital requirements.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. (Notes 8 and 20)

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For investment securities that are not traded in active markets, the Bank used valuation techniques that include inputs for the instrument that are based on observable market data. Changes in assumptions used in valuations could affect reported fair value of financial assets. Key assumptions are based on current market yields. (Note 29)

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4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)*Pension and post-employment benefits*

The cost of these benefits and the present value of the pension and 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/(income) for pension and post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost/ (income) recorded for pension and post-employment benefits and may affect planned funding of the pension plans. 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 pension and 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 historical relationship of the actual medical cost increases with the rate of inflation in the economy. Other key assumptions for the pension and post-employment benefits costs and credits are based in part on current market conditions. (Note 16)

*Impairment losses on loans and advances***Policy applicable prior to 1 April 2018**

The Bank reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. (Note 3 (a))

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

Impairment losses on financial assets

Policy applicable from 1 April 2018

The measurement of expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit loss models that are considered accounting judgements and estimates include:

- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss basis and the qualitative assessment
- ▶ Development of ECL models, including the various formulas and the choice of inputs
- ▶ Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the expected credit loss models
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs and the effect on probabilities of default, exposure at default and loss given default.

The Bank regularly review its internal models in the context of actual loss experience and adjust when necessary.

Investment property revaluation

The property was revalued using the market comparison approach which estimates the fair value based on sale prices of properties of similar nature or in similar locations with price adjustments being made for any notable differences between the sample and subject property (Note 18).

The fair value is determined by an independent valuator every two (2) years and during the intervening period by the Bank using an in-house valuation method.

5. Other Income

	2019	2018
	\$'000	\$'000
Rental income (Strata and Training rooms) and Strata maintenance	32,521	28,929
Interest on bank account	2,317	5,021
Other income	14,030	20,834
Bad debt recovery	29,320	-
Income from loans written off	45,797	-
	<u>123,985</u>	<u>54,784</u>

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6. Expenses by Nature

Expenses other than interest and credit losses comprise administration expenses as follows:

	2019	2018
	\$'000	\$'000
Auditors' remuneration	3,931	2,315
Depreciation	11,091	11,979
Directors' emoluments-		
Fees	1,491	957
Management (included in staff costs-Note 7)	19,497	18,515
Other staff costs (included in staff costs-Note 7)	332,337	256,768
Other operating expenses	168,614	147,855
	<u>536,961</u>	<u>438,389</u>

7. Staff Costs

	2019	2018
	\$'000	\$'000
Salaries and wages	265,184	217,200
Statutory payroll taxes-employer portion	25,885	21,207
Retroactive employer's contribution	-	1,456
Pension asset (Note 16)	14,823	(9,640)
Pension obligation (Note 16)	20,693	22,197
Other staff costs	25,249	22,863
	<u>351,834</u>	<u>275,283</u>

The average number of persons employed by the Bank during the year was:

	2019	2018
Trade	14	21
Administration	48	53
	<u>62</u>	<u>74</u>

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8. Taxation

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

	2019 \$'000	2018 \$'000
Current tax	26,649	6,308
Deferred tax credit (Note 20)	(22,678)	(10,103)
	<u>3,971</u>	<u>(3,795)</u>

The tax on the profit before tax differs from the theoretical amount that would arise using the basic statutory rate of 25% as follows:

	2019 \$'000	2018 \$'000
Profit before tax	<u>126,963</u>	<u>12,896</u>
Tax calculated at a rate of 25%	31,741	3,224
Adjustment for the effects of:		
Income not taxable	(26,155)	(9,760)
Expenses not deductible for tax purposes	1,120	3,376
Employment tax credit	(8,539)	(443)
Other	5,804	(192)
	<u>3,971</u>	<u>(3,795)</u>

The tax charge relating to components of other comprehensive income are as follows:

	2019		
	Before tax \$'000	Tax charge \$'000	After tax \$'000
<i>Items that will not be reclassified to profit or loss:</i>			
Net fair value losses through other comprehensive income	(110,801)	-	(110,801)
Foreign exchange losses through other comprehensive income	(2,653)	-	(2,653)
Remeasurement of pension and other employment benefit obligation	<u>11,122</u>	<u>(2,781)</u>	<u>8,341</u>
	<u>(102,332)</u>	<u>(2,781)</u>	<u>(105,113)</u>
	2018		
	Before tax \$'000	Tax charge \$'000	After tax \$'000
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Unrealised gain on available-for-sale financial assets	11,294	-	11,294
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of pension and other employment benefit obligation	<u>(195,136)</u>	<u>48,784</u>	<u>(146,352)</u>
	<u>(183,842)</u>	<u>48,784</u>	<u>(135,058)</u>

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9. Cash and Deposits

	2019	2018
	\$'000	\$'000
Cash	288,645	653,324
Short-term deposits – 90 days or less (excluding interest receivable)	<u>508,728</u>	<u>916,811</u>
Cash and cash equivalents	797,373	1,570,135
Interest receivable	<u>137</u>	<u>704</u>
	<u>797,510</u>	<u>1,570,839</u>
		\$'000
Cash and deposits (Gross) as at 31 March 2018		1,570,839
Impact of IFRS 9 adoption		<u>(594)</u>
Cash and deposits as at 1 April 2018		<u>1,570,245</u>
		\$'000
Cash and deposits (Gross) as at 31 March 2019		797,840
Impact of IFRS 9 adoption		<u>(330)</u>
Cash and deposits as at 31 March 2019		<u>797,510</u>
Included in short-term deposits above is interest receivable amounting to \$137,000 (2018 - \$704,000). Average interest rates - local 2.21% and foreign 1.49% (2018 – local 4.98% and foreign 1.53%).		
		\$'000
Opening provision – 31 March 2018		-
IFRS 9 Expected credit losses – 1 April 2018		594
Net movement during current year		<u>(264)</u>
IFRS 9 Expected credit losses – 31 March 2019		<u>330</u>

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10. Notes and Other Receivables**Commitments****Assumptions**

- The Bank must approve and receive all collaterals related to undrawn commitment.
- All undrawn commitments at the end of the previous year was either used or cancelled in the current year.
- All undrawn commitments at the end of the current period are either from newly approved loans and from undrawn commitments brought forward into the current period.

	2019	2018		
	\$'000	\$'000		
Notes receivable	1,170,887	409,142		
Receivable EXBED	-	16,391		
Premiums receivable	824	1,777		
	<u>1,171,711</u>	<u>427,310</u>		
		\$'000		
Notes and other receivables (Gross) as at 31 March 2018		427,310		
Impact of IFRS 9 adoption		(772)		
Notes and other receivables as at 1 April 2018		<u>426,538</u>		
		\$'000		
Notes and other receivables (Gross) at 31 March 2019		1,171,711		
Impact of IFRS 9 adoption		(1,311)		
Notes and other receivables as at 31 March 2019		<u>1,170,400</u>		
		\$'000		
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Notes and other receivables	249,246	922,465	-	1,171,711
Expected credit losses	(813)	(498)	-	(1,311)
	<u>248,433</u>	<u>921,967</u>	-	<u>1,170,400</u>
				\$'000
Opening provision – 31 March 2018				-
IFRS 9 Expected credit losses – 1 April 2018				772
Net movement during current year				539
IFRS 9 Expected credit losses – 31 March 2019				<u>1,311</u>

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10. Notes and Other Receivables (Continued)

Maturing as follows:

	2019	2018
	\$'000	\$'000
In less than 12 months	1,171,400	426,965
In greater than 12 months	-	345
	<u>1,171,400</u>	<u>427,310</u>

Included in notes and other receivables above is interest receivable amounting to \$28,989,009 (2018 - \$4,208,000).

Notes receivable represent amounts due from clients utilising foreign currency loans and lines of credit. The average period for line of credit transactions is 180 days. Interest rates on notes receivable depend on the particular line of credit utilised and range from 8% - 10% per annum.

Receivable EXBED loans were repaid during the period, and represented amounts advanced to the Jamaica Exporters' Association and the Jamaica Manufacturers' Association for on-lending to their members. Interest on this facility was at a rate of 11%. These loans were unsecured.

11. Notes Discounted

These represent notes discounted under the pre- and post-shipment financing schemes and are made up as follows:

	Principal	Interest	Expected	Carrying	Principal	Interest	Provision	Carrying
	\$'000	Receivable	Credit	Value	\$'000	Receivable	for Credit	Value
	2019	\$'000	Losses	\$'000	2018	\$'000	Losses	\$'000
		2019	\$'000	2019		2018	\$'000	2018
(a) Insurance Policy Discount Facility (IPDF)	171,546	2,994	(34)	174,506	183,113	2,984	(5,706)	180,391
(b) Pre-Shipment Facility (PSF)	1,174,951	21,786	(20,535)	1,176,202	1,444,082	32,074	-	1,476,156
(c) Jamaica Exporters' Association (JEA) ExBED	-	-	-	-	3,828	97	(2,662)	1,263
(d) Jamaican Dollar Short-Term Loans	3,078	54	(98)	3,034	5,863	31	-	5,894
(e) Development Bank of Jamaica Limited Loan (DBJ#3)	13,957	36	-	13,993	39,167	376	-	39,543
(f) National Insurance Fund	-	-	-	-	1,433	30	-	1,463
(g) J\$ Working Capital Facility	783,117	18,568	(34,443)	767,242	852,984	26,999	-	879,983
(h) Tourism Enhancement Fund	41,107	270	(11)	41,366	6,586	46	-	6,632
(i) Jamaica Manufactures Association	1,500	123	(1,324)	299	-	-	-	-
	<u>2,189,256</u>	<u>43,831</u>	<u>(56,445)</u>	<u>2,176,642</u>	<u>2,537,056</u>	<u>62,637</u>	<u>(8,368)</u>	<u>2,591,325</u>

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11. Notes Discounted (Continued)

Maturing as follows:

	2019	2018		
	\$'000	\$'000		
In less than 12 months	2,165,591	2,561,132		
In greater than 12 months	11,051	30,193		
	<u>2,176,642</u>	<u>2,591,325</u>		
		\$'000		
Notes discounted as at 31 March 2018		2,591,325		
Impact of IFRS 9 adoption		(76,777)		
Notes discounted as at 1 April 2018		<u>2,514,548</u>		
		\$'000		
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Notes discounted	1,250,873	109,888	872,326	2,233,087
Expected credit losses	(4,343)	(93)	(52,009)	(56,445)
	<u>1,246,530</u>	<u>109,795</u>	<u>820,317</u>	<u>2,176,642</u>
				\$'000
Opening provision – 31 March 2018				8,368
Impact of IFRS 9 adoption				76,777
IFRS 9 Expected credit losses – 1 April 2018				<u>85,145</u>
Net movement during current year				(28,700)
IFRS 9 Expected credit losses – 31 March 2019				<u>56,445</u>

	Interest Rate	
	2019	2018
(a) Insurance Policy Discount Facility (IPDF) - Secured by insurance policy	12%	12%
(b) Pre-shipment Facility (PSF) – Secured	10%-13%	10%-13%
(c) Jamaica Exporters' Association (JEA/JMA) ExBED - Unsecured. This is a joint project with the JEA and loans are available to small exporters.	12%	12%
(d) Jamaican Dollar Short-Term Loans – Secured	10%-13%	10%-13%
(e) Development Bank of Jamaica Limited Loan (DBJ#3) -Secured	10%	10%
(f) National Insurance Fund (Note 21 (f)) - Secured	10%	10%
(g) J\$ Working Capital Facility	10%-13%	10%-13%
(h) Tourism Enhancement Fund(SMTE)	4.5%	4.5%-5%
(i) Jamaica Export Manufacturing Association (JMEA)	12%	-

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11. Notes Discounted (Continued)***Insurance Policy Discount Facility (IPDF)***

The facility represents amounts loaned for working capital financing and is available for small to medium-sized exporters who are the holders of a trade credit insurance policy from the Bank.

Pre-Shipment Facility

This is a working capital facility which provides financing to assist customers with the filing of orders by purchasing raw materials. The customer can borrow up to 65% of the specific order. Loans are for 90 days on a revolving basis.

JEA/JMA Facility

This is to finance working capital requirements as well as purchase raw materials, receivables financing and purchase of small capital equipment. The short-term loans are for 180 days and the medium-term loans up to 30 months. The loan ceiling is J\$3.5 million for JEA and \$1.5M for JMA. The JEA facility is administered by the JEA and is primarily for its members, This. facility was repaid during the period.

J\$ Short Term Facility

The J\$ working capital facility is for customers with a revolving J\$ denominated line of credit. The loan facility provides working capital support to procure supplies from overseas providers and is targeted to non-earners of foreign currency. Loans are primarily for a period up to 180 days, in exceptional circumstances the loan tenor may be up to 360 days.

Development Bank of Jamaica Limited Loan (DBJ#3)

The facility represents funds on-lent from DBJ, to be used to provide pre-shipment export financing to small and medium-sized enterprises.

National Insurance Fund Facility

This represents loans to small and medium-sized enterprises (SME) from financing received from the National Insurance Fund and are secured by a deed of assignment of the underlying loans. These loans bear interest of 8% to 10% and are for periods of up to forty-eight months.

The J\$ Working Capital Facility

The J\$ working capital facility is for clients with a revolving J\$ denominated line of credit. The loan facility provides working capital support to procure supplies from overseas providers and is targeted to non-earners of foreign currency. Loans are primarily for a period up to 180 days, in exceptional circumstances the loan tenor may be up to 360 days.

SMTE Facility - Tourism Enhancement Fund

This loan programme is funded by the Tourism Enhancement Fund and is to qualified small and medium sized tourism enterprises with the Tourism Sector and linkages networks. J\$ facility is available for, raw material purchase, capital equipment acquisition, finance infrastructure development, working capital support and for expansion of tours and attraction Clients can borrow up to J\$25 million at an interest rate of 5% per annum for a maximum period of 180 days.

The notes discounted that are defined as secured above, are backed by securities such as: Bank Guarantees from the Bank's Approved Financial Intermediaries (AFIs), Bills of Sale on serialized equipment, Mortgages over Real Estate, Hypothecation of Final Instruments, Corporate Guarantees and Personal Guarantees of principal shareholders, Assignment of Life Insurance, Guarantors of acceptable net worth and Assignment of Receivables.

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11. Notes Discounted (Continued)
JMEA Loan Facility

This is to finance working capital requirements as well as purchase raw materials, receivables financing and purchase of small capital equipment. The short-term loans are for 180 days and the medium-term loans up to 30 months. The loan ceiling is J\$3.5 million for JMEA members.

12. Medium-Term Loans Receivable

	Principal \$'000 2019	Interest Receivable \$'000 2019	Expected Credit Losses \$'000 2019	Carrying Value \$'000 2019
(a) Modernisation Fund for Exporters	265,392	759	(3,221)	262,930
(b) National Insurance Fund SME (Note 21 (e))	5,170	31	-	5,201
(c) US Dollar Medium-Term Loans	447,767	265	(148)	447,884
(d) Other Medium-Term Loans	28,720	128	-	28,848
(e) SME Growth Initiative Loans (SME) formerly (SBDF)	817,397	4,771	(16,609)	805,559
(f) Tourism Enhancement Fund (TEF)	455,400	754	(7,069)	449,085
	<u>2,019,846</u>	<u>6,708</u>	<u>(27,047)</u>	<u>1,999,507</u>

	Principal \$'000 2018	Interest Receivable \$'000 2018	Carrying Value \$'000 2018
(a) Modernisation Fund for Exporters	223,461	2,670	226,131
(b) National Insurance Fund SME (Note 21 (e))	19,394	199	19,593
(c) US Dollar Medium-Term Loans	700,760	5,013	705,773
(d) Other Medium-Term Loans	22,155	-	22,155
(e) SME Growth Initiative Loans (SME) formerly (SBDF)	645,910	9,925	655,835
(f) Tourism Enhancement Fund (TEF)	338,856	1,900	340,756
	<u>1,950,536</u>	<u>19,707</u>	<u>1,970,243</u>

Maturing as follows:

	2019 \$'000	2018 \$'000
In less than 12 months	286,133	27,092
In greater than 12 months	1,713,374	1,943,151
	<u>1,999,507</u>	<u>1,970,243</u>

	\$'000
Medium-term loans receivable as at 31 March 2018	1,970,243
Impact of IFRS 9 adoption	<u>(82,337)</u>
Medium-term loans receivable as at 1 April 2018	<u>1,887,906</u>

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12. Medium-Term Loans Receivable (Continued)

	Stage 1 \$'000	Stage 2 \$'000	Stage 3 \$'000	Total \$'000
Medium-term loans receivables	1,984,023	42,531	-	2,026,554
Expected credit losses	(17,879)	(9,168)	-	(27,047)
	<u>1,966,144</u>	<u>33,363</u>	-	<u>1,999,507</u>
				\$'000
Opening provision – 31 March 2018				-
Impact of IFRS 9 adoption				<u>82,337</u>
IFRS 9 Expected credit losses – 1 April 2018				82,337
Net movement during current year				<u>(55,290)</u>
IFRS 9 Expected credit losses – 31 March 2019				<u><u>27,047</u></u>

- (a) The Modernisation Fund for exporters is a medium-term facility that was designed to meet the upgrading and retooling needs of businesses in the Export sector and linkage companies. Loans are secured and attract an interest rate of 10% to 13% per annum over a tenure of 60 months.
- (b) This represents loans to small and medium-sized enterprises (SME) from financing received from the National Insurance Fund and are secured by a deed of assignment of the underlying loans. These loans bear interest of 8% to 10% and are for periods of up to forty-eight months.
- (c) The United States Dollar Medium Term Loans are extended at a rate of 8.5% - 11% and are for periods of up to sixty months. All loans are secured.
- (d) Other Medium-Term Loans include loans to staff members which bear interest at 3% per annum, and a loan facility which bears interest at 0.5%. These loans are for a period of up to five years. Included in this amount is adjustment of \$9,836,000 (2018 - \$2,123,000) representing the difference between the total principal amount outstanding and the carrying amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings.
- (e) SME Growth Initiative Loan programme – (SME)-(formerly Small Business Discount Facility SBDF)–Secured 10%-13% (2018-10%-13%) – Under this Medium Term loan facility clients can borrow up to Jamaican equivalent of US\$500,000 to access working capital, purchase equipment, improve and upgrade existing facilities. Loans are normally for 48 months but in exceptional circumstances may be extended for 5 years. The loan facility can be accessed directly or via Approved Financial Institutions (AFIs).
- (f) SMTE Facility – Tourism Enhancement Fund: This loan programme is funded by the Tourism Enhancement Fund and is to qualified small and medium sized tourism enterprises with the Tourism Sector and linkages networks. J\$ facility is available for, raw material purchase, capital equipment acquisition, finance infrastructure development, working capital support and for expansion of tours and attraction Clients can borrow up to J\$25 million at an interest rate of 4.5%-5% per annum for a maximum period of 180 days.

The medium-term loans receivable, that are defined as secured above, are backed by securities mentioned in Note 11.

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13. Demand and Non-Accrual Loans

	2019	2018
	\$'000	\$'000
Demand loans (J\$)	738,132	11,750
Demand loans-(US\$)	158,218	651,797
Provision for credit losses	-	(102,433)
Expected credit losses	(92,462)	-
	<u>803,888</u>	<u>561,114</u>
		\$'000
Demand and non-accrual loans as at 31 March 2018		561,114
Impact of IFRS 9 adoption		5,016
Demand and non-accrual loans as at 1 April 2018		<u>566,130</u>
		\$'000
Opening provision – 31 March 2018		102,433
Impact of IFRS 9 adoption		(5,016)
IFRS 9 Expected credit losses – 1 April 2018		97,417
Net movement during current year		(4,955)
IFRS 9 Expected credit losses – 31 March 2019		<u>92,462</u>

14. Investments

	Number of shares held		FVOCI	Available- for-sale
	2019	2018	2019	2018
			\$'000	\$'000
Bladex:				
Class 'A' common stock	107,065	107,065	231,925	313,769
Class 'B' common stock	<u>28,971</u>	<u>28,971</u>	71,314	102,924
			<u>303,239</u>	<u>416,693</u>
			Amortised Cost	Amortised Cost
			2019	2018
			\$'000	\$'000
Securities purchased under resale agreements			89,730	159,486
Government of Jamaica securities (FRANS)			11,150	11,017
Expected credit losses			(105)	-
			<u>100,775</u>	<u>170,503</u>
			<u>404,014</u>	<u>587,196</u>

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14. Investments (Continued)

	\$'000	
Investments as at 31 March 2018	587,196	
Impact of IFRS 9 adoption	(150)	
Investments as at 1 April 2018	<u>587,046</u>	
	\$'000	
Opening provision – 31 March 2018	-	
Impact of IFRS 9 adoption	150	
IFRS 9 Expected credit losses – 1 April 2018	150	
Net movement during current year	(45)	
IFRS 9 Expected credit losses – 31 March 2019	<u>105</u>	
	2019	2018
Securities purchased under resale agreements	2.21%	4.97%
Government of Jamaica securities (FRANS)	10%	10%
	2019	2018
	\$'000	\$'000
Remaining term to maturity:		
From three months to one year	89,673	159,486
Over five years	11,102	11,017
	<u>100,775</u>	<u>170,503</u>

Included in investments is interest receivable amounting to \$661,000 (2018 - \$513,000).

The fair value of the underlying securities held as collateral for securities purchased under resale agreements at 31 March 2019 was \$629,179,479 (2018 - \$854,632,000).

15. Long-Term Loans Receivable

Long-term loans receivable represents staff loans which bear interest at 1% to 3% per annum and are for periods of up to twenty-five years. The amount due at 31 March 2019 includes \$160,836 (2018 - \$146,000) receivable within twelve months.

Included in this amount is an adjustment of \$6,482,804 (2018 - \$7,176,000), representing the difference between the amortised cost and the net present value, as required under IFRS.

Probability of Default Staff Loans

In the ten (10) years under review, there were no obvious defaults on staff loans. Staff loans does not necessarily have zero credit risks but based on the method of repayment inter alia another method was used to assess its credit risk.

It was assumed that staff loans would only be in default if staff was not paid their salaries. EXIM being owned by the Government of Jamaica (GOJ), the Standard and Poor (S & P) default rate was assumed as the probability of default on staff loans.

Expected credit losses - ECL on Staff loans for 2019 is assessed to be \$75,000 (1 April 2018 - \$115,000).

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16. Post-Employment Benefits

The Bank operates a non-contributory, defined benefit pension plan for permanent employees who are employed directly by the Bank. The assets of the plan are held independently of the Bank in a separate trustee administered fund. The Bank has recognised as an expense for the year in the profit or loss in the statement of comprehensive income of \$34,510,000 (2018 - \$12,557,000). The employer's contribution paid for the year amounted to \$9,922, 000 (\$5,963,000 and accrual of \$1,110,000 on retroactive salary accrued but not yet paid as at the year ended 31 March 2018).

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 Guardian Life Limited.

The Bank also provides post-employment medical and life insurance benefits to employees who satisfy the minimum service requirements. The plan is valued by independent actuaries, Eckler Consulting Limited.

	2019	2018
	\$'000	\$'000
Assets/(liabilities) recognised in the statement of financial position –		
Post-employment benefit asset	117,472	125,380
Post-employment benefit obligations	<u>(198,826)</u>	<u>(197,130)</u>
Amounts recognised in other comprehensive income		
Post-employment benefit asset	(4,339)	(189,994)
Post-employment medical benefit obligation	15,461	(5,142)
Tax effect	<u>(2,781)</u>	<u>48,784</u>
	<u>8,341</u>	<u>(146,352)</u>

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16. Post-Employment Benefits (Continued)
(a) Post-employment benefit asset

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

	2019	2018
	\$'000	\$'000
Present value of funded obligations	(959,286)	(799,629)
Fair value of plan assets	1,076,758	925,009
Asset recognised in statement of financial position	<u>117,472</u>	<u>125,380</u>

The movement in the defined benefit obligation was as follows:

	2019	2018
	\$'000	\$'000
At beginning of year	799,629	506,339
Interest cost	58,919	47,467
Current service cost	22,354	16,207
Voluntary contributions	3,829	1,832
Benefits paid during year	(53,489)	(15,181)
Remeasurements:		
Losses from changes in financial assumptions	138,718	92,273
Experience adjustment	(10,674)	150,692
At end of year	<u>959,286</u>	<u>799,629</u>

The movement in the fair value of the plan assets during the year was as follows:

	2019	2018
	\$'000	\$'000
At beginning of year	925,009	806,110
Interest income on plan assets	68,558	76,232
Contributions paid	15,084	7,795
Benefits paid	(53,489)	(15,181)
Administrative expense	(2,108)	(2,918)
Remeasurement of plan assets	123,704	52,971
At end of year	<u>1,076,758</u>	<u>925,009</u>

The movement in the post-employment benefit asset was as follows:

	2019	2018
	\$'000	\$'000
At beginning of year	125,380	299,771
Pension (cost)/ income	(14,823)	9,640
Employer's contributions	11,255	5,963
Remeasurements recorded in other comprehensive income	(4,340)	(189,994)
	<u>117,472</u>	<u>125,380</u>

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16. Post-Employment Benefits (Continued)**(a) Post-employment benefit asset (continued)**

The amounts recognised in the statement of comprehensive income were:

	2019	2018
	\$'000	\$'000
Current service cost	22,354	16,207
Interest cost	58,919	47,467
Interest income on plan assets	(68,558)	(76,232)
Administrative expense	2,108	2,918
Total included in staff costs (Note 7)	<u>14,823</u>	<u>(9,640)</u>

The net cost is recognised in administration expenses in the statement of comprehensive income.

The Bank expects that it will contribute \$10,760,000 to the plan in respect of the year ending 31 March 2020.

The distribution of the plan assets was as follows:

	2019		2018	
	\$'000	%	\$'000	%
Equities	580,217	53.9	433,699	47
Debt securities	421,248	39.1	406,786	44
Repurchase agreements	22,126	2.1	42,297	4.5
Other	53,167	4.9	42,227	4.5
	<u>1,076,758</u>	<u>100</u>	<u>925,009</u>	<u>100</u>

A one percent change in discount rate would result in the following total obligation:

	2019	
	1% Increase	1% Decrease
	\$'000	\$'000
Present value of defined benefit obligation	<u>831,490</u>	<u>1,120,214</u>

	2018	
	1% Increase	1% Decrease
	\$'000	\$'000
Present value of defined benefit obligation	<u>697,327</u>	<u>926,855</u>

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16. Post-Employment Benefits (Continued)
(a) Post-employment benefit asset (continued)

The five year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan and experience adjustments for the plan asset and liabilities is as follows:

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Fair value of plan assets	1,076,758	925,009	806,110	567,668	449,423
Defined benefit obligations	(959,286)	(799,629)	(506,339)	(503,826)	(467,789)
Surplus/(Deficit)	<u>117,472</u>	<u>125,380</u>	<u>299,771</u>	<u>63,842</u>	<u>(18,366)</u>
Experience adjustments -					
Fair value of plan assets	123,704	52,971	195,332	86,415	9,033
Defined benefit obligations	<u>(10,674)</u>	<u>150,692</u>	<u>(13,253)</u>	<u>(26,683)</u>	<u>(16,362)</u>

(b) Other post-employment benefit obligations

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

	2019 \$'000	2018 \$'000
Present value of obligation	<u>198,826</u>	<u>197,130</u>

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

	2019 \$'000	2018 \$'000
At beginning of year	197,130	172,517
Current service cost	5,998	5,921
Interest cost	14,695	16,276
Benefits paid	(3,537)	(2,726)
Remeasurements:		
Changes in demographic assumptions	(1,763)	9,008
Losses from changes in financial assumptions	12,956	395
Experience gains	(26,653)	(4,261)
At end of year	<u>198,826</u>	<u>197,130</u>

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

	2019 \$'000	2018 \$'000
Current service costs	5,998	5,921
Interest cost	14,695	16,276
Total included in staff costs (Note 7)	<u>20,693</u>	<u>22,197</u>

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16. Post-Employment Benefits (Continued)**(b) Other post-employment benefit obligations (continued)**

Assumed health care cost trends have a significant effect on the amounts recognised in the statement of comprehensive income. A one percent point change in assumed health care cost trend rates would result in the following obligations:

	2019	
	1% Increase \$'000	1% Decrease \$'000
Present value of defined benefit obligation (medical/life benefits)	163,342	226,829
	2018	
	1% Increase \$'000	1% Decrease \$'000
Present value of defined benefit obligation (medical/life benefits)	168,637	233,248

The five year trend for the defined benefit obligations and experience adjustments is as follows:

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Defined benefit obligations	198,826	197,130	172,516	146,345	115,434
Experience adjustments	(26,653)	(4,261)	(4,754)	5,803	(17,227)

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16. Post-Employment Benefits (Continued)**(c) Principal actuarial assumptions used in valuing post-employment benefits**

The principal actuarial assumptions used in valuing post-employment benefits were as follows:

	2019	2018
	%	%
Discount rate	7.00	7.50
Inflation rate	4.50	4.50
Medical rates	1.50	1.50
Future salary increases	5.50	5.50
Future pension increases	3.00	2.25

The average life expectancy (in years) of a pensioner retiring at age 60 at the statement of financial position date are as follows:

	2019	2018
Male	24.2	24.1
Female	26.7	26.7

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

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

	2019		
	Impact on defined benefit obligations		
	Change in Assumption	Increase in Assumption \$'000	Decrease in Assumption \$'000
Discount rate	1%	(127,796)	160,928
Salary escalation rate	1%	29,598	(26,583)
Pension increases	1%	124,428	(103,481)

	2018		
	Change in Assumption	Increase in Assumption \$'000	Decrease in Assumption \$'000
Discount rate	1%	(102,302)	127,226
Salary escalation rate	1%	25,378	(23,086)
Pension increases	1%	97,163	(81,470)

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16. Post-Employment Benefits (Continued)
(c) Principal actuarial assumptions used in valuing post-employment benefits (continued)

	2019	
	Impact on defined benefit obligations Increase in Assumption by One Year \$'000	Decrease in Assumption by One Year \$'000
Life expectancy	21,800	(22,600)

	2018	
	Impact on defined benefit obligations Increase in Assumption by One Year \$'000	Decrease in Assumption by One Year \$'000
Life expectancy	16,100	(16,900)

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 and life benefits to changes in the principal assumptions is:

	2019		
	Change in Assumption	Increase in Assumption \$'000	Decrease in Assumption \$'000
Discount rate	1%	35,413	(28,004)
Medical and dental trend rate	1%	(27,305)	33,938
Expected pension increase	1%	(347)	383

	2018		
	Change in Assumption	Increase in Assumption \$'000	Decrease in Assumption \$'000
Discount rate	1%	36,118	(28,493)
Medical and dental trend rate	1%	(27,807)	34,675
Expected pension increase	1%	(379)	419

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16. Post-Employment Benefits (Continued)**Risks associated with pension plans and other employee benefit plans**

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:

Asset volatility

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

As the plan matures, the Bank intends to reduce the level of investment risk by investing more in assets that better match the liabilities. This process includes monitoring and rebalancing the asset classes and the maturity profile of assets within these classes. The Government bonds largely represent investments in Government of Jamaica securities.

However, the Bank believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Bank's long term strategy to manage the plans efficiently.

Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted. The majority of the plan's assets are either unaffected by fixed interest securities or loosely correlated with inflation, meaning that an increase in inflation will reduce the surplus or create a deficit.

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.

Up to 30 June 1990, members were required to contribute five percent (5%) of pensionable salary, defined as basic salary plus housing allowance. Members could elect to contribute a maximum of a further five percent (5%) of pensionable salary as additional voluntary contributions.

After 1 July 1990, the Fund was changed to become non-contributory. The employer's contributions is now ten percent (10%) as a result of a decrease from eighteen percent (18%) of pensionable salaries. Members still may elect to make contributions to the Fund as additional voluntary contributions of up to 10% of the member's gross taxable remuneration.

After 1 January 1999, the funding policy was amended to allow contributions to the Fund by the Bank at a rate of 10% of pensionable salaries.

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16. Post-Employment Benefits (Continued)
Risks associated with pension plans and other employee benefit plans (continued)

In the most recent actuarial valuation carried out for funding purposes as at 31 December 2016, the actuaries recommended an amendment to the contribution rate from 18.2% to 10% of members' pensionable salaries until 31 December 2019, when the next triennial valuation is due. The bank contributed at a rate of 10%

The weighted average duration of the defined benefit obligation is 15.1 years for the Pension Fund and 16.9 years for post-employment medical and life benefits.

17. Property and Equipment

	Office Improvements \$'000	Motor Vehicles \$'000	Equipment Furniture and Fixtures \$'000	Computers \$'000	Total \$'000
Cost -					
1 April 2017	36,566	9,521	35,668	41,088	122,843
Additions	95	4,287	1,395	1,955	7,732
Disposals	(23)	(2,713)	(119)	(2,445)	(5,300)
31 March 2018	36,638	11,095	36,944	40,598	125,275
Additions	782	11,158	1,028	2,161	15,129
Disposals	-	(1,315)	(66)	(904)	(2,285)
31 March 2019	37,420	20,938	37,906	41,855	138,119
Depreciation -					
1 April 2017	7,749	8,819	12,798	35,443	64,809
Charge for the year	3,664	958	3,329	4,028	11,979
Disposals	(6)	(2,713)	(96)	(2,445)	(5,260)
31 March 2018	11,407	7,064	16,031	37,026	71,528
Charge for the year	3,735	1,888	3,248	2,220	11,091
Disposals	-	(1,315)	(54)	(628)	(1,997)
31 March 2019	15,142	7,637	19,225	38,618	80,622
Net Book Value -					
31 March 2019	22,278	13,301	18,681	3,237	57,497
31 March 2018	25,231	4,031	20,913	3,572	53,747

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18. Investment Property

(a) These comprise:

Fair Value of Land and Buildings:

	\$'000
Balance as at 1 April 2017	185,000
Capital expenditure for investment property	<u>5,427</u>
Balance as at 31 March 2018	190,427
Gain on revaluation of investment property	<u>44,573</u>
Balance as at 31 March 2019	<u><u>235,000</u></u>

- (i) The fair value of the property amounting to \$235 million was arrived at on the basis of valuations carried out by external independent valuers, David Thwaites & Associates. The property was valued at fair value considering the income approach and sales comparables, which is defined by the Internal Valuation Standards 2011, 9th Edition. Site inspection and associated market analyses were undertaken and completed on the 16th July 2018. Discount rates applied to the model in 2018 ranged from 8.0% to 9.0% was deemed most appropriate by the valuator. The valuator is accredited in Jamaica specializing in the valuation of commercial, residential and mixed use properties. The surplus arising on the property revaluation has been credited to profit or loss in the statement of comprehensive income.
- (ii) Rental income in relation to investment property amounted to \$19,266,000 (2018 - \$18,374,000). Direct expenses incurred in relation to these properties totalled \$3,840,000 (2018 - \$3,034,000).
- (iii) With regards to loan received, Note 21 (c), Petrocaribe Development Fund has a lien on property; stamped initially to cover US\$1 million.

19. Lines of Credit

	2019	2018
	\$'000	\$'000
Bank of Nova Scotia Jamaica Limited – Cuban Lines of Credit 5.95% (2018 – 4.7%)	<u>335,937</u>	<u>174,310</u>

Included in lines of credit above is interest payable amounting to \$3,200,000 (2018 - \$1,343,000).

These unsecured amounts represent the drawn-down balances on lines of credit extended to the Bank for 180 days. The total line of credit limit available to the Bank is 10 million Canadian dollar.

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20. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method, using a tax rate of 25%. The movement in the deferred income tax (asset)/liability is as follows:

	2019 \$'000	2018 \$'000
At beginning of year	(27,363)	31,524
Recognised in the profit or loss in the statement of comprehensive income (Note 8)	(22,678)	(10,103)
Recognised in the other comprehensive income (Note 8)	2,781	(48,784)
At end of year	<u>(47,260)</u>	<u>(27,363)</u>

Deferred income tax arises as follows:

	2019 \$'000	2018 \$'000
Deferred income tax assets –		
Accrued vacation	4,186	3,170
Insurance provision	777	777
Foreign exchange loss	22,126	5,793
Post-employment benefit obligation	49,707	49,283
	<u>76,796</u>	<u>59,023</u>
Deferred income tax liabilities –		
Post-employment benefit asset	29,368	31,346
Accelerated tax depreciation	168	314
	<u>29,536</u>	<u>31,660</u>
	<u>(47,260)</u>	<u>(27,363)</u>

The deferred tax (credit)/ charge in the profit or loss in the statement of comprehensive income comprise the following temporary differences:

	2019 \$'000	2018 \$'000
Accrued vacation	(1,016)	450
Foreign exchange loss	(16,333)	(9,500)
Accelerated tax depreciation	(146)	(86)
Post-employment benefit asset	(893)	3,902
Post-employment benefit obligation	(4,290)	(4,869)
	<u>(22,678)</u>	<u>(10,103)</u>

The deferred tax charge/ (credit) in the other comprehensive income comprises the following temporary differences:

	2019 \$'000	2018 \$'000
Post-employment benefit asset	(1,085)	(47,499)
Post-employment benefit obligation	3,866	(1,285)
	<u>2,781</u>	<u>(48,784)</u>

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21. Long-Term Loans Payable

	2019	2018
	\$'000	\$'000
(a) PetroCaribe Development Fund	1,034,821	1,230,940
(b) PetroCaribe Development Fund	350,008	420,000
(c) PetroCaribe Development Fund	-	1,259,850
(d) Development Bank of Jamaica Limited (DBJ)	38,790	147,697
(e) National Insurance Fund	13,805	23,310
(f) Tourism Enhancement Fund (TEF)	1,001,221	650,892
	<u>2,438,645</u>	<u>3,732,689</u>
Deferred commitment fees	<u>(2,859)</u>	<u>(3,985)</u>
	<u>2,435,786</u>	<u>3,728,704</u>

Included in long-term loans is interest payable amounting to \$10,159,000 (2018 - \$12,969,000).

The amount due at 31 March 2019 includes \$279,123,000 (2018 - \$489,737,000) payable within twelve months.

- (a) The Bank entered into a loan agreement with the PetroCaribe Development Fund to borrow US\$12 million. It drew down the amount in three tranches between 8 August 2007 and 30 January 2008. The loan is unsecured, and bears initial interest at the rate of 5% (from July 2011- July 2013, this was reduced to 3%, however it was later returned to 5% in August 2013) The loan has a tenure of fifteen years, with a moratorium of one year on principal repayment. A further loan agreement for US\$6 million was entered into with the Fund and the proceeds received during the year ended 31 March 2011, at a rate of 3%. This loan is due to be repaid by June 2022.
- (b) The Bank entered into a loan agreement with the PetroCaribe Development Fund to borrow \$1 billion. The loan has a rate of 6% and tenure of fifteen years, with a moratorium of one year on principal repayment. This loan is due to be repaid by December 2023 and is unsecured.
- (c) The Bank entered into a loan agreement with the PetroCaribe Development Fund to borrow US\$20 million. The loan has a rate of interest of 3% and tenure of 10 years. The loan was fully drawn down as at the reporting date. The loan is secured by assignment over the portfolio of loans extended under this facility, and equitable mortgage over property located at Norwood Avenue, Kingston 5. This loan is due to be repaid by March 2022. (See Note 28)
- (d) The Bank entered into various loan agreements with the Development Bank of Jamaica (DBJ). The interest rates on these loans range from 4.25% to 6.50%. These loans have repayment dates ranging from December 2015 to March 2021. The Bank is an AFI of the DBJ and all loans to the Bank are unsecured.
- (e) The Bank has entered into a loan agreement with the National Insurance Fund (NIF) for on lending to SME's and is for working capital and fixed asset purchases for entities involved in value added activities i.e. light manufacturing, agriculture, agro-processing, energy, services and the creative industries. This facility represents a Jamaica dollar pool of approximately J\$138 million. The loan ceiling is J\$15 million per customer and the facility expires on 30 April 2022. For the year, the Bank had drawn NIL (2018 - J\$7.5 million). The loan from the NIF to the Bank is unsecured.
- (f) The Bank has entered into a loan agreement with the Tourism Enhancement Fund (TEF) for on lending to Small and Medium Enterprise's organizations within the Tourism sector. This facility represents a Jamaica dollar pool of approximately J\$1Billion. The loan is unsecured and ceiling per customer is J\$25 million. As at 31 March 2019, the Bank had received J\$1 Billion (2018 - J\$650 million).

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22. Share Capital

	Number of Shares Issued and Fully Paid	Share Capital \$'000
Authorised- 2,613,688 ordinary shares		
Balance as at 1 April 2016	1,666,824	1,666,824
Capital Injection during the year	400,000	400,000
Balance as at 31 March 2017, 31 March 2018 and 31 March 2019	<u>2,066,824</u>	<u>2,066,824</u>

The Ministry of Finance and Planning approved capital injection of \$1,065,000,000 to the Bank during the financial year 2016. This required an increase in the Bank's share capital in order to accommodate this and future injections, resulting in the authorized ordinary shares being increased by 2,000,000 as at 1 February 2016.

During the financial year 2017, the Bank received a further \$400,000,000, thus increasing the fully paid up shares by this amount. The new shares that have been issued have the same rights and terms as those previously issued.

23. Capital Reserve

	2019 \$'000	2018 \$'000
GOJ Budgetary Support	150,000	150,000
Apparel Sector Facility	45,842	45,842
JECIC Grant	148,574	148,574
Gain on Sale of Assets	8,210	8,210
	<u>352,626</u>	<u>352,626</u>

The GOJ budgetary support represents a non-reimbursable grant from the Government of Jamaica provided as budgetary support for the Bank.

The apparel sector facility represents a non-reimbursable grant from the Government of Jamaica, to be on-lent at an interest rate of 11% (2018 - 11%) per annum to the apparel sector under the Apparel Sector Financing Scheme.

The Jamaica Export Credit Insurance Corporation (JECIC) Grant represents the balance of investments being managed by National Export-Import Bank of Jamaica Limited for JECIC (in liquidation). The Bank of Jamaica approved the net investments balance as a grant to EXIM effective 1 April 2006.

24. Reserve Fund

15% of the profit after taxation each year is transferred to a reserve fund until the fund equals 50% of paid-up capital and, thereafter, 10% of the profit after taxation will be transferred until the amount in the fund is equal to the paid-up capital of the Bank.

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25. Reserve for Trade Credit Insurance

This reserve represents amounts transferred from retained earnings to meet any future claims which may be incurred as a result of trade credit insurance contracts.

26. Investment Revaluation Reserve

This reserve comprises the fair value gains or losses on available-for-sale financial assets and fair value through other comprehensive income.

27. Related Party Balances and Transactions

The statement of financial position includes balances, arising in the ordinary course of business, with the Government of Jamaica (GOJ), entities owned by the GOJ, key management personnel (directors and senior executives) and other related parties as follows:

	2019 \$'000	2018 \$'000
GOJ, entities owned by the GOJ and affiliates-		
Notes and other receivables	11,204	17,827
Investments (Note 14)	11,150	11,017
Long-term loans payable (Note 21 and Note 28)	<u>(3,384,286)</u>	<u>(3,728,704)</u>

Transactions with related parties were as follows:

	2019 \$'000	2018 \$'000
GOJ entities owned by the GOJ and affiliates-		
Interest income	10,949	750
Interest expense	<u>(115,188)</u>	<u>(148,574)</u>

Transactions with directors and key management personnel (including executive director) were as follows:

	2019 \$'000	2018 \$'000
Salaries and wages	<u>69,614</u>	<u>53,269</u>
Directors' emoluments-		
Fees	1,490	957
Other remuneration	<u>19,497</u>	<u>18,515</u>

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28. Reclassification of Long-term Loan

As at 31 March 2019, the Bank was in breach of clause 12.26 of the PertoCaribe Loan Agreement dated 18 January 2012 in the amount of US\$20 million as set out below:

Liquidity ratio-- Investments to be maintained in cash and marketable securities at 5% of total assets.

This has resulted in reclassification of loan from long-term payable.

After the Bank considered the cash to be held under the memorandum of agreement with the Tourism Enhancement Fund (TEF), where all amounts received not yet on-lent are required to be available for lending, in addition to cash amount being required to honour claims under the Trade Credit Facility, the Bank did not meet the PetroCaribe requirement of holding cash and marketable securities at 5% of total assets.

29. Fair Values

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. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value. However, market prices are not available for a significant number of the assets and liabilities held and issued by the Bank. Therefore, where no market price is available, the fair values presented have been estimated using present values or other estimation and valuation techniques based on market conditions existing at reporting date.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

- (i) The fair value of unquoted equity securities classified as fair value through other comprehensive income was determined by applying a marketability/liquidity discount to the quoted price of a class of shares within the same company that rank parri passu.
- (ii) The carrying amounts of liquid assets and other assets maturing within one year are assumed to approximate their fair values. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- (iii) The fair value of the Government securities was determined based on the present value of the future cash flows using an appropriate discount rate, based on market yields on other such securities with similar maturity dates.
- (iv) The fair value of loans payable which were obtained at concessionary rates (Note 21) has not been estimated as these loans are available to the Bank due to its special circumstances. Adequate market information is not available to determine the fair value of such loans.
- (v) The fair value of investment property is determined using the market comparison approach which estimates the fair value based on sale prices of properties of similar nature or in similar locations with price adjustments being made for any notable differences between the sample and subject property.

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29. Fair Values (Continued)

The following tables provide an analysis of assets held as at 31 March that, subsequent to initial recognition, are measured at fair value. The assets 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).

	2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Unquoted investments (Note 14)	-	-	303,239	303,239
Government of Jamaica securities	-	11,150	-	11,150
Investment property (Note 18)	-	-	235,000	235,000
	-	11,150	538,239	549,389

	2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Unquoted investments (Note 14)	-	-	416,693	416,693
Government of Jamaica securities	-	11,017	-	11,017
Investment property (Note 18)	-	-	190,427	190,427
	-	11,017	607,120	618,137

The Bank held no instruments classified as Level 1 during the year, and there were no transfers between levels during the year.

The movement in securities classified as Level 3 during the year was as follows:

	2019 \$'000	2018 \$'000
At start of year	607,120	600,801
Capital expenditure for investment property	-	5,427
Gain on revaluation of investment property recognized in profit or loss	44,573	-
Foreign exchange loss recognized in profit or loss	-	(10,402)
Foreign exchange loss recognized in other comprehensive income	(2,653)	-
Fair value gains recognized in other comprehensive income	-	11,294
Fair value loss recognized in other comprehensive income	(110,801)	-
At end of year	<u>538,239</u>	<u>607,120</u>

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30. Commitments

(a) Loan commitments under the various loan programmes totalled \$289,200,400 at 31 March 2019 (2018 - \$991,658,000).

(b) Lease arrangements**Operating lease commitments - Bank as lessee**

At 1 July 2014, the Bank entered into commercial lease for extended periods. The leases have an average life of ten years with the option to renew for a further five (5) years. There are no restrictions placed upon the lessee by entering into the leases.

Future minimum lease payments under non-cancellable operating leases as at 31 March are, as follows:

	2019 \$'000	2018 \$'000
Within one year	27,330	25,542
After one year but not more than five years	<u>29,243</u>	<u>13,203</u>
	<u><u>56,573</u></u>	<u><u>38,745</u></u>

Operating lease commitments - Bank as lessor

At 1 November 2014, the Bank became a lessor of commercial lease for extended periods. The leases have an average life of three years with the option to renew for a further three years. There are no restrictions placed upon the lessee by entering into the leases.

Future minimum lease payments under non-cancellable operating leases as at 31 March are, as follows:

	2019 \$'000	2018 \$'000
Within one year	20,313	19,345
After one year but not more than five years	<u>12,188</u>	<u>32,500</u>
	<u><u>32,501</u></u>	<u><u>51,845</u></u>

During the year ended 31 March 2019, \$19,266,342 (2018 - \$18,374,000) of lease payments was credited to net income

31. Dividends paid

During the year ended 31 March 2019, dividend paid was nil (2018 - \$4.01 million). In accordance with the Public Bodies Regulations, 2015, the Ministry of Finance and the Public Service requested on the 22 September 2017, that the Bank make a distribution of \$4.01 million based on its audited net profit for the financial year 2016/2017. The dividend declared and paid during the year ended 31 March 2018 was \$1.94 per share.