FINANCIALS
2019

2019

Financials

NATIONAL COMMERCIAL BANK
JAMAICA LIMITED

NATIONAL COMMERCIAL BANK
JAMAICA LIMITED

Financial Statements

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September 30, 2019

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Independent auditor's report

To the Members of National Commercial Bank Jamaica Limited

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

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of National Commercial Bank Jamaica Limited (the Bank) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Bank as at September 30, 2019, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

National Commercial Bank Jamaica Limited's consolidated and stand-alone financial statements comprise:

- the consolidated income statement for the year ended September 30, 2019;
- the consolidated statement of comprehensive income for the year ended September 30, 2019;
- the consolidated statement of financial position as at September 30, 2019;
- the consolidated statement of changes in equity for the year ended September 30, 2019;
- the consolidated statement of cash flows for the year ended September 30, 2019;
- the income statement for the year ended September 30, 2019;
- the statement of comprehensive income for the year ended September 30, 2019;
- the statement of financial position as at September 30, 2019;
- the statement of changes in equity for the year ended September 30, 2019;
- the statement of cash flows for the year ended September 30, 2019; and
- the notes to the consolidated and stand-alone financial statements, which include significant accounting policies.

Basis for opinion

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

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

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

Our audit approach

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

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

The context of our audit is set by the Group's significant activities for the year ended September 30, 2019. The adoption of IFRS 9, 'Financial Instruments' resulted in significant adjustments to the accounting for certain financial instruments. We have included this significant activity as a new key audit matter for the current period.

We determined the scope of our audit by first considering the internal organisation of the Group and then identifying the components of the audit that have the most significant impact on the financial statements. The Group comprised 16 reporting components of which, we selected 6, which mainly represent the principal business units within the Group and are located in Jamaica, Cayman Islands and Barbados. Full scope audits were performed for 3 components, while audits of one or more financial statements line items were performed for 3 components. The audit work performed covered 92% of the Group's total assets and 91% of total revenue.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses in relation to financial instruments (Group & Bank) *See notes 2 (h), 2 (k), 19, 20 and 21 to the financial statements for management's disclosures of related accounting policies, judgements and estimates.* The Group adopted the accounting standard IFRS 9 'Financial instruments' effective October 1, 2018. The standard introduced new requirements around two main aspects of how financial instruments are treated namely; measurement and classification, and impairment. In relation to impairment, the standard prescribes a new forward-looking expected credit loss ('ECL') impairment model, which takes into account reasonable and supportable forward-looking information and will generally result in the earlier recognition of impairment provisions. The introduction of the new standard required the Group to build and implement new models to measure the ECL for relevant financial assets. The financial statement line items most significantly impacted are debt securities and loans and advances, including off statement of financial position exposures. The new standard significantly impacted investment securities and loans and advances. As at September 30, 2019, these assets totalled \$689.0 billion for the Group and \$468.9 billion for the Bank. Overall, the statement of financial position exposure was 80.8% and 76.2% of total assets for the Group and Bank, respectively. Off statement of financial position exposures such as loan commitments and guarantees totalled \$67.4 billion for the Group and \$65.5	We obtained the Group's accounting policies as it relates to IFRS 9 and assessed the reasonableness of those accounting policies with the requirements of the standard. We evaluated the design and tested the operating effectiveness of the relevant controls for IFRS 9 including: • Review and approval of key assumptions, judgments and forward-looking assumptions prior to being incorporated within the ECL model. • Review and approval of the output of the ECL model and related transition impacts. • Review of the credit rating of debt securities and their updates within the ECL model. • Reviews of the staging of financial instruments focusing on appropriate preparation, review and updates in the ECL model. We found that the controls were designed, implemented and operated effectively, and therefore we determined that we could place reliance on these controls for the purpose of our audit. We were assisted by our valuation specialists in performing the following: • Obtained an understanding of management's ECL model including source data, evaluated the theoretical soundness and tested the mathematical integrity of the model. • Tested management's ECL calculations to determine if they were in line with management's assumptions, model design and were consistently

Key audit matter	How our audit addressed the key audit matter
billion for the Bank as at the reporting date. Stage 3 credit impairment provisions for loans and advances of $5.0 billion have been recognised for the Group and Bank. We have focused on this area because there are a number of significant management determined judgements including: • The consideration of days past due (DPD), which is one of the key criteria for considering a significant increase in credit risk. This impacts the staging of the asset and the related calculation, i.e. one year or lifetime ECL calculations. • Relevant inputs and techniques included in the ECL model utilised in probability of default (PD), loss given default (LGD) and exposures at default (EAD) parameters. • Use of multiple economic scenarios that are forward looking. We also focused on credit impaired loans and advances. These are termed stage 3 loans. In determining the ECL, the assumptions used for estimating both the amount and timing of future cash flows are complex and involve significant judgment by management, including valuation of real estate property pledged as collateral as this is the most significant repayment source for impaired retail and impaired commercial loans. The estimation of collateral values is impacted by market trends as well as the circumstances of the specific property and involves judgment and specialised skills. Management used valuation experts to support their estimate of future cash flows from the assets, including realisation of the collateral held.	applied. • We evaluated the appropriateness of management's judgement pertaining to forward looking information, including macro-economic factors, the basis of the multiple economic scenarios used and the weighting applied to capture nonlinear losses. **Debt securities** We tested the completeness of all debt securities to determine whether all securities were included in the ECL model by agreeing to the detailed securities listing. We recalculated the amortised cost for a sample of debt securities to test the accuracy of management's calculations, which is used as the EAD value. We tested on a sample basis, the accuracy of the initial credit risk and the credit risk at the reporting date using rating agencies definition of investment grade and evaluated the appropriateness of the group classification of debt securities. We tested the critical data fields used in the ECL model, such as the maturity date, amortised cost, accrued interest, credit rating and interest rate by tracing data back to source documents. We agreed the inputs used to calculate the PDs and LGDs to external sources such as external rating agencies. **Loans and advances, including off-statement of financial position exposures** We tested the completeness of all loans and advances and off statement of financial position exposures by agreeing to the detailed listing of loans to determine whether all financial instruments were included in the ECL model. We recalculated days past due (DPD) for a sample of

Key audit matter	How our audit addressed the key audit matter
We focus on the key assumptions and judgments made by management when calculating the provision for individually impaired loans. These include the estimated costs to sell the collateral, time to liquidate the pledged collateral and the amount and timing of collection of cash flows from other sources than pledged collateral.	loans. We tested the critical data fields used in the ECL model, such as origination date, date of maturity, default date, principal and effective interest rate by tracing data back to source documents. We tested reliability of source data used in calculating PDs and LGDs on a sample basis by corroborating to historical data. **Credit impaired loans and advances** We inspected, on a sample basis, the forecasts of future cash flows prepared by management to support the calculation of the impairment, testing the assumptions and comparing estimates to external evidence where available. This was performed for a sample of loans. Using a risk-based approach, we were assisted by our experts to perform independent valuations of commercial and residential properties held as collateral. We evaluated the performance of the loan portfolio subsequent to the end of the reporting period to identify significant adjusting subsequent events and did not identify any such events. Based on the procedures performed, no adjustments were considered necessary.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments securities classified as fair value through profit or loss, fair value through other comprehensive income and amortised cost, and pledged assets (Group & Bank). *See notes 2(l), 20 and 21 to the financial statements for management's disclosures of related accounting policies, judgements and estimates.*	
As at September 30, 2019, investments classified as investment securities at fair value through profit or loss, fair value through other comprehensive income, and at amortised cost, and pledged assets together account for $376.0 billion or 44.0% of total assets of the Group, and $164.9 billion or 26.8% of total assets of the Bank. For some of the investments, an active market exists, from which quoted prices can be obtained. For others, management uses valuation techniques, which utilise inputs such as the investment cash flow details and a market yield obtained from established yield curves. The magnitude of this balance, the complexity of the models used, the use of management assumptions, and the potential for misstatement from the use of inappropriate yields from the yield curve resulted in this being an area of focus.	For investments for which quoted prices were available, we compared prices used by management to independent pricing sources. No exceptions were identified. For investments which were valued using a valuation technique, we tested management's valuation for a sample of individual investment holdings by comparing investment cash flow details and yields to independent pricing and data sources, including externally independently developed yield curves. We evaluated management's assumptions in relation to the timing and amounts of cash flows in relation to the sample of investments by considering any indicators to suggest that there may be variations to the contractual cash flows expected. We recalculated the carrying value, and amounts disclosed for the fair value of the Group's investments for mathematical accuracy and noted no exceptions. Based on the testing, no adjustments were considered necessary.

Key audit matter	How our audit addressed the key audit matter
Methodologies and assumptions used for determining insurance contract liabilities for life insurance and annuity insurance contracts *See notes 2(u) and 33 to the financial statements for management's disclosures of related accounting policies, judgements and estimates.*	
As at September 30, 2019, risk reserves for life insurance and annuity contracts represent negative reserves of $622.2 million or 0.07% of the total assets of the Group. We focused on this area because the valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions may result in significant impacts to the valuation of these liabilities.	We tested the completeness, accuracy and reliability of the underlying data utilized by management to support the actuarial valuation. We tested a sample of contracts to assess whether contract features and demographic data corresponded to the data file given by management to its actuary. We engaged an actuarial specialist to evaluate the methodologies and assumptions utilized by management's actuarial expert considering industry and component specific facts and circumstances. Specific areas of focus were mortality assumptions, contract lapses, investment return and associated discount rate, and operating expenses, all of which are based on entity experience or publicly available information. We found the significant estimates and assumptions used by management to be reasonable, and that the methodologies used were actuarially established and accepted and appropriate in the circumstance.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after this auditor's report date.
Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

PricewaterhouseCoopers

Chartered Accountants
23 December 2019
Kingston, Jamaica

Consolidated Income Statement

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Operating Income			
Interest income		53,241,974	48,598,918
Interest expense		(14,605,914)	(15,033,654)
Net interest income	5	38,636,060	33,565,264
Fee and commission income		20,650,515	18,710,041
Fee and commission expense		(4,402,745)	(3,890,707)
Net fee and commission income	6	16,247,770	14,819,334
Gain on foreign currency and investment activities	7	12,408,056	17,650,163
Credit impairment losses	12	(3,306,476)	(1,920,771)
Premium income	8	8,489,440	8,662,005
Dividend income	9	589,577	567,321
Other operating income		339,038	570,793
		18,519,635	25,529,511
Net operating income		73,403,465	73,914,109
Operating Expenses			
Staff costs	10	19,974,608	19,460,041
Policyholders' and annuitants' benefits and reserves	11	903,242	4,731,479
Depreciation and amortisation		3,789,708	3,014,905
Other operating expenses	13	23,626,278	17,929,730
		48,293,836	45,136,155
Operating Profit		25,109,629	28,777,954
Share of profit of associates and gain on dilution	22	10,089	950,459
Gain on disposal of associate	22	3,291,544	837,480
Gain on disposal of subsidiary	49	2,626,425	-
Profit before Taxation		31,037,687	30,565,893
Taxation	14	(5,740,079)	(6,613,716)
NET PROFIT		25,297,608	23,952,177

National Commercial Bank Jamaica Limited

Consolidated Statement of Comprehensive Income

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Net Profit		25,297,608	23,952,177
Other Comprehensive Income, net of tax -			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		212,640	(404,236)
Other		47,669	-
		260,309	(404,236)
Items that may be reclassified subsequently to profit or loss			
Currency translation gains		90,783	535,373
Share of other comprehensive income of associated companies, net of tax		-	(596,523)
Expected credit losses in debt instruments at fair value through other comprehensive income (FVOCI)		(350,671)	-
Changes in unrealised gains on securities designated as FVOCI		6,374,082	-
Realised fair value gains on sale and maturity of securities designated as FVOCI		(2,148,829)	-
Realised currency translation and other adjustments, of a former associated company		324,329	-
Unrealised gains on available-for-sale investments		-	867,915
Realised fair value gains on sale and maturity of available-for-sale investments		-	(6,031,704)
		4,289,694	(5,224,939)
Total other comprehensive income		4,550,003	(5,629,175)
TOTAL COMPREHENSIVE INCOME		29,847,611	18,323,002

Consolidated Statement of Financial Position

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
ASSETS			
Cash in hand and balances at Central Banks	15	60,187,509	72,029,518
Due from other banks	16	60,436,691	41,113,771
Derivative financial instruments	17	239,279	233,329
Reverse repurchase agreements	18	2,925,572	3,807,177
Loans and advances, net of provision for credit losses	19	312,914,928	277,002,958
Investment securities	20	172,425,058	184,640,753
Pledged assets	21	203,616,059	176,910,304
Investment in associates	22	112,734	5,738,172
Investment properties	23	104,310	839,106
Intangible assets	25	9,923,294	7,439,269
Property, plant and equipment	26	10,409,911	11,192,609
Properties for development and sales	24	369,904	-
Deferred income tax assets	27	4,420,834	3,144,743
Income tax recoverable		3,228,293	1,547,136
Letters of credit and undertaking		2,051,519	2,305,130
Other assets	28	9,784,979	10,216,255
Total Assets		853,150,874	798,160,230

National Commercial Bank Jamaica Limited

Consolidated Statement of Financial Position CONT'D

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
LIABILITIES			
Due to other banks	29	17,267,575	11,815,200
Customer deposits		364,872,737	349,634,633
Repurchase agreements		174,957,590	152,884,626
Obligations under securitisation arrangements	30	48,305,823	58,992,666
Derivative financial instruments	17	239,279	259,002
Other borrowed funds	31	34,654,829	36,418,660
Deferred income tax liabilities	27	3,679,950	910,710
Liabilities under annuity and insurance contracts	33	28,776,695	38,093,007
Post-employment benefit obligations	34	5,601,389	5,502,973
Letters of credit and undertaking		2,051,519	2,305,130
Other liabilities	35	27,139,486	17,725,063
Total Liabilities		707,546,872	674,541,670
EQUITY			
Share capital	36	6,465,731	6,465,731
Fair value and capital reserves	37	10,914,267	3,664,948
Loan loss reserve	38	2,947,624	3,470,490
Banking reserve fund	39	6,634,068	6,598,442
Retained earnings reserve	40	43,820,000	39,250,000
Retained earnings		74,822,312	64,168,949
Total Equity		145,604,002	123,618,560
Total Equity and Liabilities		853,150,874	798,160,230

Approved for issue by the Board of Directors on December 20, 2019 and signed on its behalf by:

Septimus Blake — Chief Executive Officer	Dennis Cohen — Director
Professor Alvin Wint — Lead Independent Director	Dave Garcia — Corporate Secretary

Consolidated Statement of Changes in Equity

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at October 1, 2017		6,465,731	8,889,887	4,287,288	6,567,333	35,650,000	51,921,343	113,781,582
Total comprehensive income		-	(5,224,939)	-	-	-	23,547,941	18,323,002
Transfer from Loan Loss Reserve		-	-	(816,798)	-	-	816,798	-
Transfer to Banking Reserve Fund		-	-	-	31,109	-	(31,109)	-
Transfer to Retained Earnings Reserve		-	-	-	-	3,600,000	(3,600,000)	-
Transactions with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(8,486,024)	(8,486,024)
Balance at September 30, 2018		6,465,731	3,664,948	3,470,490	6,598,442	39,250,000	64,168,949	123,618,560
Impact of initial application of IFRS 9	50	-	2,959,625	(245,691)	-	-	(2,138,562)	575,372
Balance at October 1, 2018		6,465,731	6,624,573	3,224,799	6,598,442	39,250,000	62,030,387	124,193,932
Total comprehensive income		-	4,289,694	-	-	-	25,557,917	29,847,611
Transfer from Loan Loss Reserve		-	-	(277,175)	-	-	277,175	-
Transfer to Banking Reserve Fund		-	-	-	35,626	-	(35,626)	-
Transfer to Retained Earnings Reserve		-	-	-	-	4,570,000	(4,570,000)	-
Transactions with owners of the Bank -								-
Dividends paid	46	-	-	-	-	-	(8,437,541)	(8,437,541)
Balance at September 30, 2019		6,465,731	10,914,267	2,947,624	6,634,068	43,820,000	74,822,312	145,604,002

National Commercial Bank Jamaica Limited

Consolidated Statement of Cash Flows

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Net profit		25,297,608	23,952,177
Adjustments to reconcile net profit to net cash provided by operating activities		6,218,816	30,089,629
Net cash provided by operating activities	41	31,516,424	54,041,806
Cash Flows from Investing Activities			
Proceeds from disposal of subsidiary	49	6,465,579	-
Acquisition of property, plant and equipment	26	(2,159,436)	(2,519,198)
Acquisition of intangible asset – computer software	25	(4,691,747)	(3,909,904)
Proceeds from disposal of property, plant and equipment		175,260	473,030
Net proceeds from partial disposal of associate	22	-	2,709,769
Purchase of investment property	23	-	(8,770)
Purchase of property for development and resale	24	(369,904)	-
Dividends received from associates	22	68,518	201,525
Purchases of investment securities		(365,972,935)	(380,723,746)
Sales/maturities of investment securities		370,971,090	342,691,491
Net cash provided by/(used in) investing activities		4,486,425	(41,085,803)
Cash Flows from Financing Activities			
Repayments under securitisation arrangements		(8,798,148)	(8,605,600)
Proceeds from other borrowed funds		19,014,587	26,107,168
Repayments of other borrowed funds		(20,924,238)	(21,075,615)
Due to other banks		5,589,106	(4,748,926)
Dividends paid		(8,437,541)	(8,486,024)
Net cash used in financing activities		(13,556,234)	(16,808,997)
Effect of exchange rate changes on cash and cash equivalents		3,739,331	(2,449,510)
Net increase/(decrease) in cash and cash equivalents		26,185,946	(6,302,504)
Cash and cash equivalents at beginning of year		56,496,560	62,799,064
Cash and Cash Equivalents at End of Year		82,682,506	56,496,560
Comprising:			
Cash in hand and balances at Central Banks	15	23,244,217	28,452,198
Due from other banks	16	53,490,078	37,493,045
Reverse repurchase agreements	18	2,265,690	312,414
Investment securities	20	13,330,830	-
Due to other banks	29	(9,648,309)	(9,761,097)
		82,682,506	56,496,560

*The principal non-cash transaction for the year is the sale of JMMB shares for which bonds were received totaling $9,182,882,000.

Income Statement

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Operating Income			
Interest income		41,312,400	36,647,984
Interest expense		(9,473,046)	(9,941,697)
Net interest income	5	31,839,354	26,706,287
Fee and commission income		18,750,747	17,784,813
Fee and commission expense		(4,402,745)	(3,890,707)
Net fee and commission income	6	14,348,002	13,894,106
Gain on foreign currency and investment activities	7	6,396,805	6,813,865
Credit impairment losses	12	(3,288,510)	(1,637,771)
Dividend income	9	11,400,102	7,120,032
Other operating income		359,650	567,419
		14,868,047	12,863,545
Net operating income		61,055,403	53,463,938
Operating Expenses			
Staff costs	10	16,537,530	16,141,255
Depreciation and amortisation		3,412,513	2,610,368
Other operating expenses	13	20,878,321	15,618,574
		40,828,364	34,370,197
Operating Profit		20,227,039	19,093,741
Gain on disposal of investment in associate	22	7,107,970	2,181,894
Profit before taxation		27,335,009	21,275,635
Taxation	14	(2,604,772)	(3,486,336)
NET PROFIT		24,730,237	17,789,299

Statement of Comprehensive Income

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	2019 $'000	2018 $'000
Net Profit	24,730,237	17,789,299
Other Comprehensive Income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurement of the post-employment benefit obligations	161,139	(274,770)
Items that may be reclassified subsequently to profit or loss		
Unrealised gains on available-for-sale investments	-	(1,681,267)
Expected credit losses on debt instruments at FVOCI	(256,831)	-
Unrealised gains on securities designated as FVOCI	3,190,373	-
Realised fair value gains on sale and maturity on securities designated as FVOCI	(375,076)	-
Realised fair value gains on sale and maturity of available-for-sale investments	-	(886,582)
	2,558,466	(2,567,849)
Total other comprehensive income	2,719,605	(2,842,619)
TOTAL COMPREHENSIVE INCOME	27,449,842	14,946,680

Statement of Financial Position

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
ASSETS			
Cash in hand and balances at Central Bank	15	59,237,567	71,158,114
Due from other banks	16	48,977,065	36,752,245
Reverse repurchase agreements	18	223,923	1,532,332
Loans and advances, net of provision for credit losses	19	304,012,102	271,123,032
Investment securities	20	56,550,806	55,231,338
Pledged assets	21	108,348,378	89,584,327
Investment in associates	22	-	1,680,328
Investment in subsidiaries		1,609,609	1,609,609
Intangible assets	25	9,304,168	6,629,650
Property, plant and equipment	26	10,355,270	10,042,033
Deferred income tax assets	27	4,217,474	2,806,979
Income tax recoverable		2,718,593	2,326,985
Letters of credit and undertaking		2,051,519	2,305,130
Other assets	28	7,541,034	8,963,114
Total Assets		615,147,508	561,745,216

National Commercial Bank Jamaica Limited

Statement of Financial Position CONT'D

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
LIABILITIES			
Due to other banks	29	18,604,554	14,687,099
Customer deposits		349,480,058	332,325,170
Derivative financial instruments	17	-	25,673
Repurchase agreements		74,960,532	56,368,674
Obligations under securitisation arrangements	30	48,305,823	58,992,666
Other borrowed funds	31	12,533,370	11,562,427
Deferred tax liabilities	27	1,899,697	123,405
Post-employment benefit obligations	34	5,601,389	5,188,004
Letters of credit and undertaking		2,051,519	2,305,130
Other liabilities	35	15,474,449	12,582,843
Total Liabilities		528,911,391	494,161,091
EQUITY			
Share capital	36	6,465,731	6,465,731
Fair value and capital reserves	37	2,246,177	(1,145,718)
Loan loss reserve	38	2,947,623	3,470,490
Banking reserve fund	39	6,512,634	6,512,634
Retained earnings reserve	40	43,820,000	39,250,000
Retained earnings		24,243,952	13,030,988
Total Equity		86,236,117	67,584,125
Total Equity and Liabilities		615,147,508	561,745,216

Approved for issue by the Board of Directors on December 20, 2019 and signed on its behalf by:

Septimus Blake — Chief Executive Officer

Dennis Cohen — Director

Professor Alvin Wint — Lead Independent Director

Dave Garcia — Corporate Secretary

Statement of Changes in Equity

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Fair Value and Capital Reserves	Loan Loss Reserve	Banking Reserve Fund	Retained Earnings Reserve	Retained Earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at October 1, 2017		6,465,731	1,422,131	4,287,288	6,512,634	35,650,000	6,785,325	61,123,109
Total comprehensive income		-	(2,567,849)	-	-	-	17,514,529	14,946,680
Transfer to Retained Earnings Reserve		-	-	-	-	3,600,000	(3,600,000)	-
Transfer from Loan Loss Reserve		-	-	(816,798)	-	-	816,798	-
Transaction with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(8,485,664)	(8,485,664)
Balance at September 30, 2018		6,465,731	(1,145,718)	3,470,490	6,512,634	39,250,000	13,030,988	67,584,125
Impact of initial application of IFRS 9	50	-	833,429	(245,692)	-	-	(973,925)	(386,188)
Balance at October 1, 2018		6,465,731	(312,289)	3,224,798	6,512,634	39,250,000	12,057,063	67,197,937
Total comprehensive income		-	2,558,466	-	-	-	24,891,376	27,449,842
Transfer to Retained Earnings Reserve		-	-	-	-	4,570,000	(4,570,000)	-
Transfer from Loan Loss Reserve		-	-	(277,175)	-	-	277,175	-
Transaction with owners of the Bank -								
Dividends paid	46	-	-	-	-	-	(8,411,662)	(8,411,662)
Balance at September 30, 2019		6,465,731	2,246,177	2,947,623	6,512,634	43,820,000	24,243,952	86,236,117

National Commercial Bank Jamaica Limited

Statement of Cash Flows

Year ended September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2019 $'000	2018 $'000
Cash Flows from Operating Activities			
Net profit		24,730,237	17,789,299
Adjustments to reconcile net profit to net cash provided by operating activities		6,370,095	13,670,998
Net cash provided by operating activities	41	31,100,332	31,460,297
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	26	(2,089,311)	(2,455,547)
Acquisition of intangible asset – computer software	25	(4,333,127)	(3,714,808)
Net proceeds from partial disposal of associate	22	-	2,709,769
Proceeds from disposal of property, plant and equipment		104,192	473,230
Purchases of investment securities		(203,253,129)	(153,290,066)
Sales/maturities of investment securities		203,689,317	138,519,784
Net cash used in investing activities		(5,882,058)	(17,757,638)
Cash Flows from Financing Activities			
Repayments under securitisation arrangements		(8,798,148)	(8,605,600)
Proceeds from other borrowed funds		3,849,302	8,649,986
Repayments of other borrowed funds		(3,030,180)	(943,999)
Due to other banks		7,042,852	(7,162,735)
Dividends paid		(8,411,662)	(8,485,664)
Net cash used in financing activities		(9,347,836)	(16,548,012)
Effect of exchange rate changes on cash and cash equivalents		3,739,361	(2,556,627)
Net increase/(decrease) in cash and cash equivalents		19,609,799	(5,401,980)
Cash and cash equivalents at beginning of year		46,791,979	52,193,959
Cash and Cash Equivalents at End of Year		66,401,778	46,791,979
Comprising:			
Cash in hand and balances at Central Bank	15	22,985,289	28,397,725
Due from other banks	16	42,030,657	29,514,238
Reverse repurchase agreements	18	223,592	1,532,134
Investment securities	20	10,806,108	-
Due to other banks	29	(9,643,868)	(12,652,118)
		66,401,778	46,791,979

*The principal non-cash transaction for the year is the sale of JMMB shares for which bonds were received totaling $9,182,882,000.

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

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

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

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

	Country of Incorporation	Principal Activities	Percentage Ownership by The Group	
			2019	**2018**
Data-Cap Processing Limited	Jamaica	Security Services	100	100
Mutual Security Insurance Brokers Limited	Jamaica	Dormant	100	100
NCB Capital Markets Limited	Jamaica	Securities Dealer and Stock Brokerage Services	100	100
Advantage General Insurance Company Limited	Jamaica	General Insurance	-	100
NCB Capital Markets (Cayman) Limited	Cayman	Securities Dealer	100	100
NCB Global Finance Limited	Trinidad	Merchant Banking	100	100
NCB Capital Markets (Barbados) Limited	Barbados	Brokerage Services	100	100
NCB Capital Markets SA	Dominican Republic	Inactive	100	100
NCB (Cayman) Limited	Cayman	Commercial Banking	100	100
NCB Trust Company (Cayman) Limited*	Cayman	-	100	100
NCB Insurance Company Limited	Jamaica	Life Insurance, Investment and Pension Fund Management Services	100	100
N.C.B. (Investments) Limited*	Jamaica	-	100	100
N.C.B. Jamaica (Nominees) Limited	Jamaica	Dormant	100	100
NCB Remittance Services (Jamaica) Limited	Jamaica	Dormant	100	100
NCB Financial Services UK Limited (formerly NCB Remittance Services (UK) Limited)	United Kingdom	Pension Remittances	100	100
West Indies Trust Company Limited	Jamaica	Trust and Estate Management Services	100	100
NCB Employee Share Scheme	Jamaica	Dormant	100	100

*No significant activities at this time.

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

Notes to the Financial Statements

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities (Continued)

The Group's associates are as follows:

	Principal Activities	Percentage ownership by The Group	
		2019	2018
Dyoll Group Limited	In Liquidation	44.47	44.47
Elite Diagnostic Limited	Medical Imaging Services	18.69	18.69
JMMB Group Limited	Securities Dealer and Stock Brokerage Services	Nil	20.01
Mundo Finance Limited	Micro Financing	50.00	50.00

All the Group's associates are incorporated in Jamaica.

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

2. Significant Accounting Policies

(a) Basis of preparation

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

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

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

The following amendments to existing standards became effective during the financial year and are deemed to be relevant to the Group's operations:

IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after 1 January 2018).

The Group adopted IFRS 9 - Financial Instruments (IFRS 9) effective October 1, 2018. Resulting from the application of this new standard, the Group made changes to the accounting policies relating to the treatment of financial assets as outlined in Note 2 (h) below. The Group has elected not to restate the comparative results as allowed under the transition provisions of IFRS 9. Consequently, the 2018 comparative financial information on financial instruments is presented in accordance with IAS 39 – Financial Instruments – Recognition and Measurement as outlined in Note 2 (h). Adjustments to the carrying amounts of financial assets and financial liabilities arising from the adoption of IFRS 9 as of October 1, 2018, were recognised directly in equity. The impact of the adoption of IFRS 9 is dealt with in Note 50.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 *(effective for annual periods beginning on or after 1 January 2018).* In September 2016, the IASB published an amendment to IFRS 4 which addresses the concerns of insurance companies about the different effective dates of IFRS 9, Financial Instruments, and the new insurance contracts standard IFRS 17. The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional. The Group's insurance operations implemented IFRS 9 on October 1, 2018, and as such this amendment did not have any impact on these financial statements.

IFRS 15, 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The adoption of this standard did not have a significant impact on the Group.

Amendment to IFRS 15, 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard. The Group's main source of revenue is out of the scope of IFRS 15. The adoption of this standard did not have a significant impact on the Group.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Amendment to IFRS 9, 'Financial instruments', on prepayment features with negative compensation (effective for annual periods beginning on or after 1 January 2019). The IASB issued a narrow-scope amendment to IFRS 9 enabling companies to measure some financial assets containing a prepayment feature which results in negative compensation at amortised cost. The relevant assets (certain loans and debt securities), would otherwise have been measured at fair value through profit or loss (FVPL). Negative compensation occurs where the contractual terms give a borrower the right to prepay the instrument before its contractual maturity, with the resulting prepayment being less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. This amendment will not have a significant impact on the financial statements.

IFRS 16, 'Leasing' *(effective for annual periods beginning on or after 1 January 2019)* Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. The Group does not expect any significant impact on the financial statements arising from future adoption of the standard.

IFRS 17, 'Insurance contracts' *(effective for annual periods beginning on or after 1 January 2022)*. IFRS 17 replaces IFRS 4 which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard requires a current measurement model where estimates are remeasured each reporting period. Contracts are measured using the building blocks of discount probability – weighted cash flows, an explicit risk adjustment, and a contract service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. This IFRS provides a common global insurance accounting standard leading to consistency in recognition, measurement, presentation and disclosure. The standard applies to annual periods beginning on or after 1 January 2021, however earlier application is permitted if IFRS 15, 'Revenue from Contracts with Customers', and IFRS 9, 'Financial Instruments', are also applied. The Group is currently assessing the impact of future adoption of the new standard on its financial statements.

IFRIC 22, 'Foreign currency transactions and advance consideration', *(effective for annual periods beginning on or after 1 January 2019)*. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. The Group does not expect any significant impact on the financial statements arising from future adoption of the interpretation.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRIC 23, 'Uncertainty over income tax treatments' (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

Annual improvements IFRS 2015-2018 Cycle – Amendments to IAS 12 and IAS 23 *(effective for annual periods beginning on or after 1 January 2019)*. The amendments to IAS 12 clarify that all income tax consequences of dividends should be recognised in the income statement, regardless of how the tax arises. The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The Group does not expect any significant impact on the financial statements arising from future adoption of these amendments.

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries

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

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

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

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

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

Associates

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

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

(b) Basis of consolidation (continued)

Associates (continued)

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

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

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

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

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

(c) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses and whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment. Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker. The chief operating decision maker is the President and Group Chief Executive Officer.

2. Significant Accounting Policies (Continued)

(d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

2. Significant Accounting Policies (Continued)

(e) Revenue recognition

Interest income and expense

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

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

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

Fee and commission income

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

Premium income

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

Dividend income

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

Rental Income

Rental income is recognised on an accrual basis.

Realised and unrealised investment gains and losses

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

Dividend distributions

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

2. Significant Accounting Policies (Continued)

(f) Income taxes

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

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

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

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

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

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

(g) Cash and cash equivalents

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

2. Significant Accounting Policies (Continued)

(h) Financial assets

From October 1 2018, the Group classifies its financial assets in the following measurement categories:

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

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

Business model assessment

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

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

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

Solely payments of principal and interest ("SPPI")

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

Equity instruments

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

Debt instruments

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

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

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

Initial recognition

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

De-recognition

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

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Classification of financial assets

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

- FVPL
- FVOCI or
- amortised cost.

Financial assets measured at fair value through profit and loss (FVPL)

Financial instruments are classified in this category if they meet one of the criteria set out below and are so designated irrevocably at inception:

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

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

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

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

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

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

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

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

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

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

(h) Financial assets (continued)

Definition of default

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

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

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

Write-offs

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

Recognition and Measurement of ECL

The general approach to recognising and measuring ECL reflects:

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

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

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

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

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

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

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

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

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

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

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

The weightings assigned to each economic scenario as at October 1, 2018 and September 30, 2019 vary by jurisdiction and were as follows:

	Base	Optimistic	Pessimistic
Scenarios	85%-60%	25%-15%	15%-5%

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

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

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

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

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

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

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

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

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the excepted credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the ECL is recognised as a provision.

2. Significant Accounting Policies (Continued)

(i) Derivative financial instruments

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

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

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

(j) Repurchase and reverse repurchase transactions

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

2. Significant Accounting Policies (Continued)

(k) Loans and advances and provisions for credit losses

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

Provision for credit losses determined under the requirements of IFRS
See Note 2(i) for details of policy under IFRS 9 after October 1, 2018

Accounting policy prior to October 1, 2018
The Group continuously monitors loans or groups of loans for indicators of impairment. In the event that indicators are present, the loans or groups of loans are tested for impairment. A provision for credit losses is established if there is objective evidence of impairment. A loan or group of loans is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a 'loss event') and that loss event has reduced the estimated future cash flows of the loan and the amount of the reduction can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the obligor;
(ii) default or delinquency in interest or principal payments;
(iii) having to grant the borrower a concession that would not otherwise be considered due to the borrower's financial difficulty;
(iv) the probability that the borrower will enter bankruptcy or other financial reorganisation; or
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio since the initial recognition of the loans, although the decrease cannot yet be identified with the individual loan in the portfolio, including:
  a) adverse changes in the payment status of borrowers in the portfolio; and
  b) national or local economic conditions that correlate with defaults on the loan portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. For accounting purposes, the carrying amount of the loan is reduced through the use of a provision for credit losses account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For the purpose of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers loan type, industry, collateral type and past-due status). Those characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the loans being evaluated.

2. Significant Accounting Policies (Continued)

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

Provision for credit losses determined under the requirements of IFRS (continued)

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the group. Losses for the preceding period are used as a baseline to determine historical loss experience for loans with credit risk characteristics similar to those in the group. This historical loss experience is then adjusted, if necessary, to reflect broader economic trends. Finally, applicable adjustments are made on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of loans should reflect and be directionally consistent with changes in related observable data and our assessment of changes in the economy from period to period (for example, changes in unemployment levels, property and motor vehicle prices, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

2. Significant Accounting Policies (Continued)

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

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

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

(l) Investment securities

See Note 2(g) for details of policy under IFRS 9 after October 1, 2018

Accounting policy prior to October 1, 2018
All purchases and sales of investment securities are recognised at settlement date.

Investment securities are classified into the following categories: investment securities at FVPL, AFS securities and loans and receivables (LAR). Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Investment securities at FVPL are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists or those financial assets that the entity upon initial recognition, designates as FVPL. They are initially recognised at fair value and transaction costs are expensed in the income statement. They are subsequently carried at fair value. Interest income on investment securities at FVPL is recognised as part of interest income in the income statement. All other realised and unrealised gains and losses are included in gain on foreign currency and investment activities in the income statement.

AFS securities are those intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity, changes in interest rates, foreign exchange rates or market prices. They are initially recognised at fair value (including transaction costs), and subsequently remeasured at fair value. Unrealised gains and losses arising from changes in fair value of AFS securities are recognised in OCI. When the securities are disposed of or impaired, the related accumulated unrealised gains or losses included in OCI are transferred to the income statement.

2. Significant Accounting Policies (Continued)

(l) Investment securities (continued)

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (i) those financial assets that the Group intends to sell immediately or in the short term, which are classified as FVPL, or (ii) those financial assets that the entity upon initial recognition, designates as at FVPL or has designated as AFS. LAR are initially measured at fair value which is the consideration to originate the loan and are subsequently carried at amortised cost using the effective interest method.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Financial assets are assessed at each date of the statement of financial position 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. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

In the case of equity securities classified as AFS, a significant or prolonged decline in the fair value below cost is considered an indicator of impairment. Significant or prolonged are assessed based on market conditions and other indicators. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment losses previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Investment securities are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

(m) Investment properties

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

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

2. Significant Accounting Policies (Continued)

(n) Intangible assets

Computer software

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

Core deposits, customer relationships and trade name

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

(o) Property, plant and equipment

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

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

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

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

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

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2. Significant Accounting Policies (Continued)

(p) Impairment of long lived assets

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

(q) Financial liabilities

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

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

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

(r) Borrowings

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

(s) Structured products

Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through the income statement (Note 19). The non-derivative elements are stated at amortised cost using the effective interest method.

(t) Leases

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

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

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

2. Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

3. Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

Business combinations

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

Income taxes

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

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

Impairment of financial assets – Policies under IFRS 9

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

Establishing staging

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

Debt securities and Deposits.

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

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

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

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

Stage 2 instruments are assets which:

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

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

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

Debt securities and Deposits. (continued)

Stage 3 instruments are assets in default.

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

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

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

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

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

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

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

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

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

The ultimate liability arising from claims made under insurance contracts
For the property and casualty insurance business, outstanding claims comprise estimates of the amount of reported losses and loss expenses and a provision for losses incurred but not reported (IBNR) based on the historical experience of the Group and industry data. These claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the Group's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allow the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims. Significant delays may occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the reporting date. The reserve for claims outstanding is determined on the basis of information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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

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

Investment in Associates

For its investments in associated companies which are listed on local or regional stock exchanges, with carrying values determined using the equity method which exceed market capitalisation, management has made determinations as to whether there are impairment indicators, which would require a formal impairment assessment. In determining whether there are impairment indicators, management has determined whether there has been a significant or prolonged decline below purchase price for the investments, and whether or not there are performance indicators which imply impairment. Where no such indicators, exist, management has concluded that there is no impairment and has not adjusted the carrying value.

Where such indicators exist, management has carried out formal impairment assessments, which seek to establish a model based valuation for the holdings. In applying those valuation techniques, management makes assumptions regarding cash flows, growth rates for those cash flows, certain earnings ratios, discount factors and terminal growth rates. The values arrived at are sensitive to changes in those assumptions.

Based on the foregoing assessments and activities, management has determined that none of the Group's investments in associated companies is impaired.

4. Responsibilities of the Appointed Actuaries and External Auditors

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

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

Notes to the Financial Statements

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

5. Net Interest Income

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Interest income				
Loans and advances	35,016,771	29,913,987	34,448,317	29,560,872
Investment securities –				
Fair value through other comprehensive income/(available for sale 2018)	16,763,128	16,160,672	5,617,067	5,046,243
Amortised cost/(loans and receivables 2018)	985,776	1,786,278	849,934	1,414,864
At fair value through profit or loss	-	45,798	-	-
Reverse repurchase agreements	94,058	100,305	45,991	38,039
Deposits and other	382,241	591,878	351,091	587,966
	53,241,974	48,598,918	41,312,400	36,647,984
Interest expense				
Customer deposits	2,372,885	3,763,032	2,214,365	3,686,830
Repurchase agreements	5,196,810	4,008,395	2,465,419	1,364,554
Policyholders' benefits	984,397	967,114	-	-
Securitisation arrangements	3,473,877	4,144,887	3,473,877	4,144,887
Other borrowed funds and amounts due to other banks	2,577,945	2,150,226	1,319,385	745,426
	14,605,914	15,033,654	9,473,046	9,941,697
Net interest income	38,636,060	33,565,264	31,839,354	26,706,287

6. Net Fee and Commission Income

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Fee and commission income				
Commercial and consumer	4,309,817	4,473,914	4,309,817	4,457,684
Payment services	10,180,991	8,939,539	10,180,991	8,939,539
Corporate banking	957,043	1,034,461	976,752	1,034,461
Management fees	-	-	2,814,998	2,793,958
Treasury and correspondent banking	423,716	442,559	423,716	510,014
Wealth, asset management & investment banking	2,146,255	1,583,702	-	-
Life insurance and pension fund management	2,366,900	2,044,728	-	-
General insurance	260,131	190,082	-	-
Other	5,662	1,056	44,473	49,157
	20,650,515	18,710,041	18,750,747	17,784,813
Fee and commission expense				
Payment services	4,402,745	3,890,707	4,402,745	3,890,707
	16,247,770	14,819,334	14,348,002	13,894,106

7. Gain on Foreign Currency and Investment Activities

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Net foreign exchange gains	3,659,174	5,120,396	3,591,274	3,995,072
Gain on sale of debt securities held for trading	(20,553)	(16,203)	-	-
Gain on sale of debt securities at FVOCI (AFS 2018)	7,057,831	11,539,314	2,534,137	2,850,194
Interest income on FVPL instruments	253,647	-	207,802	-
Fair value loss on embedded put option	-	(31,401)	-	(31,401)
Gain on sale of equity securities	1,457,957	1,020,340	63,591	-
Fair value gain on revaluation of investment property (Note 23)	-	17,717	-	-
	12,408,056	17,650,163	6,396,805	6,813,865

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

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

8. Premium Income

	The Group	
	2019	2018
	$'000	$'000
Annuity contracts	1,351,413	1,638,198
Life insurance contracts	2,473,078	2,455,146
General insurance contracts	4,664,949	4,568,661
	8,489,440	8,662,005

9. Dividend Income

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Subsidiaries	-	-	11,310,832	6,902,582
Associates	-	-	68,518	201,525
Other equity securities	589,577	567,321	20,752	15,925
	589,577	567,321	11,400,102	7,120,032

10. Staff Costs

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Wages, salaries, allowances and benefits	14,389,091	13,243,898	12,027,916	10,685,468
Payroll taxes	1,513,886	1,293,936	1,244,738	1,215,109
Pension costs – defined contribution plans (Note 34)	443,530	405,461	347,594	324,305
Pension costs – defined benefit plans (Note 34)	57,547	21,316	-	-
Termination benefits	145,399	834,389	121,136	831,742
Staff profit share	2,659,810	2,700,357	2,059,743	2,153,284
Other post-employment benefits (Note 34)	765,345	960,684	736,403	931,347
	19,974,608	19,460,041	16,537,530	16,141,255

Wages, salaries, allowances and benefits

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

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

11. Policyholders’ and Annuitants’ Benefits and Reserves

	The Group	
	2019	**2018**
	$'000	**$'000**
Annuity contracts	2,540,491	2,535,947
Life insurance contracts	(4,660,550)	(790,508)
General insurance contracts	3,023,301	2,986,040
	903,242	4,731,479

The above amounts include insurance claims by policyholders amounting to $1,702,036,000 (2018 – $1,574,046,000) in respect of life insurance and annuity contracts and $3,532,000,000 (2018 – $3,480,712,000) in respect of general insurance contracts.

12. Credit Impairment Losses

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Investment securities	(156,353)	283,883	(177,481)	-
Loans and advances	3,462,829	1,636,888	3,465,991	1,637,771
	3,306,476	1,920,771	3,288,510	1,637,771

13. Other Operating Expenses

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Auditors' remuneration	102,719	96,933	44,609	34,105
Credit card rebates	1,023,011	1,078,086	1,023,011	1,078,086
Insurance and premiums	462,732	396,979	627,873	558,943
Irrecoverable general consumption tax and asset tax	3,609,457	3,104,900	3,030,026	2,565,143
License and transaction processing fees	904,227	1,213,223	634,489	924,870
Marketing, customer care, advertising and donations	2,203,316	1,523,911	1,781,759	1,228,497
Operating lease rentals	309,481	242,494	228,654	156,795
Property, vehicle and ABM maintenance and utilities	3,769,274	3,154,047	3,463,667	2,887,326
Stationery	205,932	209,101	184,495	177,588
Technical, consultancy and professional fees	1,262,385	854,943	776,297	594,686
Travelling, courier and telecommunication	1,556,940	967,304	1,392,034	810,142
Management & royalty fees	6,856,934	3,667,624	6,736,322	3,552,936
Operational losses	619,095	490,886	594,470	480,699
Other	740,775	929,299	360,615	568,758
	23,626,278	17,929,730	20,878,321	15,618,574

14. Taxation

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Current:				
Income tax	6,982,120	7,055,917	3,931,119	3,644,209
Prior year under/(over) provision	9,518	(117,636)	84,148	(19,920)
Deferred income tax (Note 27)	(1,251,559)	(324,565)	(1,410,495)	(137,953)
	5,740,079	6,613,716	2,604,772	3,486,336

The tax on profit differs from the theoretical amount that would arise using the basic statutory rate of 25% for the life insurance subsidiary, 33⅓% for the Bank and other “regulated companies”, 21% for the subsidiary incorporated in the United Kingdom and 25% for all other subsidiaries (with the exception of the subsidiaries incorporated in Cayman Islands and the NCB Employee Share Scheme which are not subject to income tax), as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Profit before tax	31,037,687	30,565,893	27,335,009	21,275,635
Tax calculated at actual tax rates	8,552,099	9,910,431	9,110,758	7,091,878
Income not subject to tax	(3,349,009)	(3,095,556)	(3,319,859)	(1,614,234)
Expenses not deductible for tax purposes	633,590	565,553	503,392	399,382
Effect of share of profit of associates included net of tax	(3,363)	(316,820)	-	-
Effect of change in tax rate applicable to life insurance subsidiary	-	(17,414)	-	-
Effect of different tax rates applicable to dividend income	(36,271)	(135,418)	(3,786,643)	(2,370,770)
Deferred tax not recognised	70,069	(13,015)	-	-
Prior year under/(over) provision	9,518	(117,636)	84,148	(19,920)
Other	(136,554)	(166,409)	12,976	-
Taxation expense	5,740,079	6,613,716	2,604,772	3,486,336

14. Taxation (Continued)

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

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

	The Group			The Bank		
At September 30, 2018	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**	**Before Tax $'000**	**Tax $'000**	**After Tax $'000**
Currency translation losses	535,373	-	535,373	-	-	-
Share of other comprehensive income of associated companies, net of tax	(897,785)	301,262	(596,523)	-	-	-
Fair value gains on available-for-sale investments, net of gains recycled to profit or loss	(6,715,496)	1,551,707	(5,163,789)	(3,851,548)	1,283,699	(2,567,849)
Remeasurement of post-employment benefit obligation	(606,354)	202,118	(404,236)	(412,156)	137,387	(274,769)
Other comprehensive income	(7,684,262)	2,055,087	(5,629,175)	(4,263,704)	1,421,086	(2,842,618)
Deferred income tax (Note 27)		2,055,087			1,421,086	

15. Cash in Hand and Balances at Central Banks

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cash in hand	13,234,048	8,080,866	13,233,537	8,080,079
Balances with central banks other than statutory reserves	10,010,169	20,371,332	9,751,752	20,317,646
Included in cash and cash equivalents	23,244,217	28,452,198	22,985,289	28,397,725
Statutory reserves with central banks – non-interest-bearing	36,943,292	43,575,129	36,252,278	42,758,198
	60,187,509	72,027,327	59,237,567	71,155,923
Interest receivable	-	2,191	-	2,191
	60,187,509	72,029,518	59,237,567	71,158,114

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

16. Due from Other Banks

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Items in course of collection from other banks	697,572	462,614	871,386	682,132
Placements with other banks	58,103,507	38,893,798	46,470,272	34,313,276
	58,801,079	39,356,412	47,341,658	34,995,408
Interest receivable	3,500,186	3,620,726	3,499,981	3,620,204
	62,301,265	42,977,138	50,841,639	38,615,612
Less: Placements pledged as collateral for letters of credit (Note 21)	(1,864,574)	(1,863,367)	(1,864,574)	(1,863,367)
	60,436,691	41,113,771	48,977,065	36,752,245

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

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Due from other banks	56,936,505	41,110,848	45,477,084	33,132,041
Less: amounts restricted to the settlement of obligations under securitisation arrangements	(3,446,427)	(3,617,803)	(3,446,427)	(3,617,803)
	53,490,078	37,493,045	42,030,657	29,514,238

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17. Derivative Financial Instruments

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

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
Assets	**$'000**	**$'000**	**$'000**	**$'000**
Equity indexed options	239,279	233,329	-	-
	239,279	233,329	-	-
Liabilities				
Forward contracts	-	25,673	-	25,673
Equity indexed options	239,279	233,329	-	-
	239,279	259,002	-	25,673

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

Equity indexed options

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

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

18. Reverse Repurchase Agreements

The Group entered into collateralised reverse repurchase agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included within reverse repurchase agreements is related accrued interest receivable of $5,213,000 and $330,000 (2018 – $3,535,000 and $198,000) for the Group and the Bank.

At September 30, 2019, the Group held $3,040,121,000 (2018 – $4,145,542,000) of securities, mainly representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements. Of amounts received as collateral for reverse repurchase agreements, the Group has pledged $1,754,351,000 (2018 – $2,362,295,000) as collateral for some of their own repurchase agreements.

Included in reverse repurchase agreements for the Group and Bank are securities with an original maturity of less than 90 days amounting to $2,265,690,000 and $224,000 (2018 – $312,414,000 and $1,532,134,000) which are regarded as cash equivalents for purposes of the statement of cash flows.

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19. Loans and Advances

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Gross loans and advances, includes mortgage loans	318,699,663	279,276,543	309,826,679	273,413,078
Provision for credit losses	(6,654,175)	(4,145,702)	(6,622,700)	(4,125,250)
	312,045,488	275,130,841	303,203,979	269,287,828
Interest receivable	869,440	1,872,117	808,123	1,835,204
	312,914,928	277,002,958	304,012,102	271,123,032

The current portion of loans and advances amounted to $50,491,713,000 (2018 – $39,149,885,000) for the Group and $49,384,255,000 (2018 – $35,303,534,000) for the Bank.

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

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Balance at beginning of year	4,145,702	3,659,526	4,125,250	3,638,836
Provided during the year	4,377,747	2,544,527	4,358,917	2,547,054
Recoveries	(914,918)	(907,639)	(892,926)	(909,283)
Net charge to the income statement (Note 12)	3,462,829	1,636,888	3,465,991	1,637,771
Write-offs	(954,356)	(1,150,712)	(968,541)	(1,151,357)
Balance at end of year	6,654,175	4,145,702	6,622,700	4,125,250

The aggregate amount of non-performing loans on which interest was not being accrued as at September 30, 2019 was $7,873,353,000 (2018 – $6,500,858,000).

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

	The Group and Bank	
	2019	**2018**
	$'000	**$'000**
Specific provision	6,589,048	4,945,297
General provision	2,981,276	2,670,896
	9,570,324	7,616,193
Excess of regulatory provision over IFRS provision recognised in the Bank reflected in non-distributable loan loss reserve (Note 40)	2,947,624	3,470,490

20. Investment Securities

	The Group	
	IFRS 9 basis	IAS 39 basis
	2019	2018
	$'000	$'000
Investment Securities Classified as FVPL:		
Government of Jamaica debt securities	51,084	13,191
Other Government Securities	3,703,255	1,610,197
Corporate Debt Securities	6,051,045	258,954
Quoted and Unquoted equities	7,033,161	1,258,201
Collective Investment Schemes	353,656	545,546
Interest receivable	22,486	8,924
	17,214,687	3,695,013
Investment Securities Classified as FVOCI (2018 AFS)		
Government of Jamaica debt securities	207,704,354	209,486,465
Other Government Securities	13,551,494	11,834,489
Corporate Debt Securities	101,480,677	25,520,055
Quoted and Unquoted equities	-	3,350,091
Collective Investment Schemes	-	592,323
Interest receivable	3,643,602	3,518,234
	326,380,127	254,301,657
Investment securities at Amortised Costs (2018 loans and receivables):		
Government of Jamaica debt securities	30,506,855	44,989,288
Other Government Securities	157,900	-
Corporate Debt Securities	-	55,962,367
Interest receivable	153,698	739,365
	30,818,453	101,691,020
Expected credit losses	(236,723)	-
	374,176,544	359,687,690
Total investment securities, as above	374,176,544	359,687,690
Less: Pledged securities (Note 21)	201,751,486	175,046,937
Amount reported on the statement of financial position	172,425,058	184,640,753

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20. Investment Securities (Continued)

	The Bank	
	IFRS 9 basis	IAS 39 basis
	2019	2018
	$'000	$'000
Investment Securities Classified as FVPL:		
Corporate Debt Securities	310,710	-
Quoted and Unquoted equities	172,013	108,422
Interest receivable	925	-
	483,648	108,422
Investment Securities Classified as FVOCI (2018 AFS):		
Government of Jamaica debt securities	114,257,955	100,773,395
Other Government Securities	4,861,407	6,242,966
Corporate Debt Securities	13,531,556	4,462,993
Interest receivable	1,645,632	-
	134,296,550	111,479,354
Investment securities at Amortised Costs (2018 loans and receivables):		
Government of Jamaica debt securities	27,982,133	26,422,364
Other Government Securities	157,900	2,859,407
Interest receivable	153,404	2,082,751
	28,293,437	31,364,522
Expected credit losses	(39,025)	-
	163,034,610	142,952,298

20. Investment Securities (Continued)

	The Bank	
	2019	2018
	$'000	$'000
Total investment securities, as above	163,034,610	142,952,298
Less: Pledged securities (Note 21)	(106,483,804)	(87,720,960)
Amount reported on the statement of financial position	56,550,806	55,231,338

The current portion of total investment securities amounted to $47,489,780,000 (2018 - $17,013,973,000) for the Group and $25,795,549,000 (2018 - $10,167,729,000) for the Bank.

Included in investment securities are debt securities with an original maturity of less than 90 days amounting to $13,330,830,000 (2018 - $Nil) for the Group and $10,806,108,000 (2018 - $Nil) for the Bank which are regarded as cash and cash equivalents for purposes of the statement of cash flows.

21. Pledged Assets

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Investment securities pledged as collateral for:				
Repurchase agreements	200,759,997	172,909,299	105,605,305	86,915,540
Clearing services	878,499	805,420	878,499	805,420
Investment securities held as security in respect of life insurance subsidiary	112,989	177,218	-	-
	201,751,485	173,891,937	106,483,804	87,720,960
Investment securities at fair value through profit or loss pledged as collateral for:				
Repurchase agreements	-	1,155,000	-	-
	201,751,485	175,046,937	106,483,804	87,720,960
Placements with other banks pledged as collateral for letters of credit (Note 18)	1,864,574	1,863,367	1,864,574	1,863,367
	203,616,059	176,910,304	108,348,378	89,584,327

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

Notes to the Financial Statements

22. Investment in Associates

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
At the beginning of the year	5,738,172	7,374,496	1,680,328	2,208,203
Disposal	(5,567,009)	(1,788,726)	(1,680,328)	(527,875)
Gain on dilution	-	11,696	-	-
Share of profits	10,089	938,763	-	-
Dividends received:				
JMMB Group Limited	(68,518)	(201,525)	-	-
Movement in other reserves	-	(596,532)	-	-
At end of year	112,734	5,738,172	-	1,680,328

During the current year, the Group disposed of its 20.01% shareholdings in JMMB Group Limited. Consideration for the disposal was $9,182,882,000, (settled with debt instruments) and gains of $3,291,544,000 and $7,107,970,000 for the Group and Bank respectively were recognised. Included in the gain for the Group were amounts previously recognised in OCI of $324,329,000 which were recycled to profit and loss. In the previous period, the Group disposed of a portion of its investment in JMMB Group Limited in September 2018 which reduced the percentage ownership from 26.30% to 20.01%. The proceeds from the sale amounted to $2,709,769,000 and a gain of $825,784,000 and $2,181,894,000 were recognised for Group and Bank, respectively.

In the previous period, the Group's interest in Elite Diagnostic Limited was reduced as a result of a partial disposal of the investment and the dilutive impact of an Initial Public Offer (IPO). A gain of $11,696,000 was recognised. Consideration for the sale was $35,464,000 and an amount of $18,325,000 was derecognised.

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

22. Investment in Associates (Continued)

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

	The Group			
	Carrying Value	JSE Indicative Value	Carrying Value	JSE Indicative Value
	2019	2019	2018	2018
	$'000	$'000	$'000	$'000
JMMB Group Limited	-	-	5,635,527	10,512,655
Other	84,322	356,634	86,124	202,093
	84,322	356,634	5,721,651	10,714,748

	The Bank			
	Carrying Value	JSE Indicative Value	Carrying Value	JSE Indicative Value
	2019	2019	2018	2018
	$'000	$'000	$'000	$'000
JMMB Group Limited	-	-	1,680,328	10,512,655
	-	-	1,680,328	10,512,655

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22. Investment in Associates (Continued)

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

	Elite Diagnostic Limited $'000	Mundo Finance Limited $'000	Total $'000
2019			
Current assets	102,314	65,123	167,437
Non-current assets	561,706	469,355	1,031,061
Current liabilities	17,192	47,821	65,013
Non-current liabilities	195,667	429,833	625,500
Revenue	404,867	72,695	477,562
Total comprehensive income	51,823	847	52,670
Percentage ownership	18.69%	50.00%	
Net assets of the associate - 100%	451,161	56,824	
Group share of net assets	84,322	28,412	

22. Investment in Associates (Continued)

	JMMB Group Limited $'000	Other individually immaterial associates $'000	Total $'000
2018			
Current assets	43,787,787	163,144	42,420,616
Non-current assets	272,435,353	738,532	273,173,885
Current liabilities	185,289,904	30,088	185,319,992
Non-current liabilities	103,105,027	416,118	103,521,145
Revenue	24,713,947	360,246	25,074,193
Profit or loss from continuing operations	3,947,620	6,570	3,954,190
Other comprehensive income	(2,143,536)	-	(2,143,536)
Total comprehensive income	1,804,084	6,570	1,810,654

Percentage ownership	20.01%
Net assets of the associate - 100%	27,828,209
Non-controlling interests	(1,050,977)
Adjusted net assets	26,777,232
Group share of adjusted net assets	5,358,124
Fair values of intangible assets recognised on acquisition	657,079
Accumulated amortisation	(379,676)
Carrying amount	5,635,527

23. Investment Properties

	The Group	
	2019	2018
	$'000	$'000
Balance at beginning of year	839,106	812,619
Disposal of subsidiary (Note 49)	(734,796)	-
Additions	-	8,770
Fair value gains (Note 7)	-	17,717
Balance at end of year	104,310	839,106
Income earned from the properties	56,007	57,555
Expenses incurred by the properties	(35,405)	(28,811)

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

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

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

24. Properties for Development and Sale

	The Group	
	2019	2018
	$'000	$'000
Properties for development and sale	369,904	-

Properties for development and sale comprise the Group’s investment properties located at Kingsway and Birdsucker Lane. These properties are earmarked for residential development and should become available for sale within the next four (4) years.

25. Intangible Assets

	The Group			
	Trade name $'000	Customer relationships $'000	Computer Software $'000	Total $'000
		2019		
Net book value, at beginning of year	170,634	20,528	7,248,107	7,439,269
Disposal of subsidiary	(160,311)	-	(121,204)	(281,515)
Translation adjustment	-	-	(693)	(693)
Additions	-	-	4,691,747	4,691,747
Amortisation charge	(10,323)	(20,528)	(1,894,663)	(1,925,514)
Net book value, at end of year	-	-	9,923,294	9,923,294
Cost	238,974	358,162	18,508,595	19,105,731
Accumulated amortisation	(238,974)	(358,162)	(8,585,301)	(9,182,437)
Closing net book value	-	-	9,923,294	9,923,294
		2018		
Net book value, at beginning of year	182,582	80,221	4,660,007	4,922,810
Additions	-	-	3,909,904	3,909,904
Amortisation charge	(11,948)	(59,693)	(1,321,804)	(1,393,445)
Net book value, at end of year	170,634	20,528	7,248,107	7,439,269
Cost	238,974	358,162	14,064,095	14,661,231
Accumulated amortisation	(68,340)	(337,634)	(6,815,988)	(7,221,962)
Closing net book value	170,634	20,528	7,248,107	7,439,269

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25. Intangible Assets (Continued)

	The Bank	
	Computer Software	
	2019	2018
	$'000	$'000
Net book value, at beginning of year	6,629,650	4,002,373
Additions	4,333,127	3,714,808
Amortisation charge	(1,658,609)	(1,087,531)
Net book value, at end of year	9,304,168	6,629,650

	2019	2018
	$'000	$'000
Cost	16,791,938	12,458,811
Accumulated amortisation	(7,487,770)	(5,829,161)
Net book value	9,304,168	6,629,650

Computer software for the Group at year end include items with a cost of $2,885,883,000 (2018 - $2,305,776,000) on which no amortisation has yet been charged as these software applications are in the process of implementation.

26. Property, Plant and Equipment

	The Group				
	Freehold Land and Buildings and Leasehold Improvements	Motor Vehicles, Furniture & Equipment	Assets Capitalised Under Finance Leases	Work-in-Progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost -					
At October 1, 2017	6,295,138	9,518,912	891,384	2,413,311	19,118,745
Additions	325,239	1,240,476	287,561	665,922	2,519,198
Disposals	(106,338)	(95,500)	(239,543)	-	(441,381)
Transfers	2,185,678	580,159	-	(2,790,054)	(24,217)
Reclassifications and adjustments	83	150	176	-	409
At September 30, 2018	8,699,800	11,244,197	939,578	289,179	21,172,754
Disposal of subsidiary	(928,922)	(538,322)	(12,976)	(5,954)	(1,486,174)
Additions	54,893	1,138,122	406,481	559,940	2,159,436
Disposals	(118,187)	(82,434)	(191,676)	-	(392,297)
Transfers	610,586	28,008	-	(638,594)	-
Reclassifications and adjustments	124,166	(1,796)	-	(4,477)	117,893
At September 30, 2019	8,442,336	11,787,775	1,141,407	200,094	21,571,612
Accumulated Depreciation -					
At October 1, 2017	1,448,551	6,771,399	467,334	-	8,687,284
Charge for the year	318,418	1,072,354	230,688	-	1,621,460
Disposals	(34,870)	(93,391)	(200,206)	-	(328,467)
Reclassifications and adjustments	(3,695)	5,934	(2,371)	-	(132)
At September 30, 2018	1,728,404	7,756,296	495,445	-	9,980,145
Charge for the year	375,379	1,210,531	278,284	-	1,864,194
Disposals	(18,983)	(82,034)	(182,735)	-	(283,752)
Disposal of subsidiary	(33,725)	(394,881)	(11,692)	-	(440,298)
Reclassifications and adjustments	(252)	41,665	(1)	-	41,412
At September 30, 2019	2,050,823	8,531,577	579,301	-	11,161,701
Net Book Value -					
September 30, 2019	6,391,513	3,256,198	562,106	200,094	10,409,911
September 30, 2018	6,971,396	3,487,901	444,133	289,179	11,192,609

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26. Property, Plant and Equipment (Continued)

	The Bank				
	Freehold Land and Building and Leasehold Improvements	**Motor Vehicles, Furniture & Equipment**	**Assets Capitalised Under Finance Leases**	**Work-in-Progress**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cost -					
At October 1, 2017	5,471,865	8,803,448	857,606	2,261,646	17,394,565
Additions	307,752	1,204,782	283,827	659,186	2,455,547
Disposals	(101,458)	(93,370)	(233,413)	-	(428,241)
Transfers	2,182,840	506,658	-	(2,689,498)	-
At September 30, 2018	7,860,999	10,421,518	908,020	231,334	19,421,871
Additions	50,836	1,106,346	384,924	547,205	2,089,311
Disposals	(20,300)	(82,441)	(177,896)	-	(280,637)
Transfers	610,586	28,008	-	(638,594)	-
At September 30, 2019	8,502,121	11,473,431	1,115,048	139,945	21,230,545
Accumulated Depreciation -					
At October 1, 2017	1,314,372	6,412,195	450,704	-	8,177,271
Charge for the year	282,701	1,020,052	220,084	-	1,522,837
Disposals	(34,234)	(91,971)	(194,065)	-	(320,270)
At September 30, 2018	1,562,838	7,340,276	476,723	-	9,379,838
Charge for the year	338,795	1,155,726	259,383	-	1,753,904
Disposals	(6,488)	(82,034)	(169,945)	-	(258,467)
At September 30, 2019	1,895,145	8,413,968	566,161	-	10,875,275
Net Book Value -					
September 30, 2019	6,606,976	3,059,463	548,887	139,945	10,355,270
September 30, 2018	6,298,160	3,081,242	431,297	231,334	10,042,033

The carrying value of collaterialized assets capitalised under finance leases amounted to $899,176,000 (2018 – $623,324,000).

27. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 25% (2018: 25%) for the life insurance subsidiary, 33⅓% for the Bank and other "regulated companies", 21% for the subsidiary incorporated in the United Kingdom and 25% for all other subsidiaries; with the exception of the subsidiaries incorporated in Cayman Islands and the NCB Employee Share Scheme which are not subject to income tax.

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Deferred tax assets	(4,420,834)	(3,144,743)	(4,217,474)	(2,806,979)
Deferred tax liabilities	3,679,950	910,710	1,899,697	123,405
Net asset at end of year	(740,884)	(2,234,033)	(2,317,777)	(2,683,574)

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Net (asset)/liability at beginning of year	(2,234,033)	145,619	(2,683,574)	(1,124,535)
Disposal of subsidiary	33,489	-	-	-
Deferred tax credited in the income statement (Note 14)	(1,251,559)	(324,565)	(1,410,495)	(137,953)
Deferred tax charged/(credited) to other comprehensive income (Note 14)	2,711,219	(2,055,087)	1,776,292	(1,421,086)
Net asset at end of year	(740,884)	(2,234,033)	(2,317,777)	(2,683,574)

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Deferred tax assets to be recovered after more than 12 months	(2,883,942)	(2,629,316)	(2,757,113)	(2,349,964)
Deferred tax liabilities to be settled after more than 12 months	1,643,589	852,724	935,853	267,538

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27. Deferred Income Taxes (Continued)

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

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Deferred income tax assets:				
Property, plant and equipment	1,016,812	760,721	868,526	641,538
Investment securities	-	321,458	-	759,870
Credit impairment losses	4,837	-	21,491	-
Pensions and other post-retirement benefits	1,867,130	1,868,595	1,867,130	1,708,426
Interest payable	245,172	160,585	-	-
Unrealised foreign exchange loss	300,567	460	296,945	-
Other temporary differences	457,150	460,938	199,572	154,394
	3,891,668	3,572,757	3,253,664	3,264,228
Deferred income tax liabilities:				
Investment securities at FVPL	1,278,499	117,331	935,887	-
Investments securities at FVOCI	1,437,614	-	-	-
Interest receivable	428,557	412,372	-	-
Unrealised foreign exchange gains	3	311,799	-	313,116
Credit impairment losses	-	247,525	-	267,538
Other temporary differences	6,111	249,697	-	-
	3,150,784	1,338,724	935,887	580,654
Net deferred tax asset	(740,884)	(2,234,033)	(2,317,777)	(2,683,574)

27. Deferred Income Taxes (Continued)

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Property, plant and equipment	(271,681)	(111,565)	(226,988)	(267,063)
Investment securities	205,126	19,395	-	-
Credit impairment losses	(289,029)	-	(288,995)	-
Pensions and other post-retirement benefits	(255,551)	(271,086)	(239,273)	(266,835)
Interest receivable	17,296	(48,802)	-	-
Interest payable	(84,927)	25,634	-	-
Accrued profit share	7,961	(44,165)	-	-
Accrued vacation leave	-	(3,241)	-	-
Fair value losses on derivatives	-	(241,346)	-	(65,796)
Unrealised foreign exchange gains and losses	(528,922)	640,275	(610,059)	482,320
Other temporary differences	(51,832)	(289,664)	(45,180)	(20,579)
	(1,251,559)	(324,565)	(1,410,495)	(137,953)

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Unrealised gains investments at FVOCI	2,786,685	(828,146)	1,695,724	(1,283,699)
Realised fair value gains on sale and maturity of investments	(181,783)	(1,024,823)	-	-
Remeasurement of post-employment benefit obligation	106,317	(202,118)	80,568	(137,387)
	2,711,219	(2,055,087)	1,776,292	(1,421,086)

Notes to the Financial Statements

September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

28. Other Assets

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Due from merchants, financial institutions, clients and payment systems providers	5,958,530	7,439,919	4,213,581	5,436,522
Prepayments	1,867,832	1,950,052	1,656,116	1,842,224
Due from banks	-	114,717	-	-
Re-insurance recoverable	-	411,916	-	-
Management fees & royalties	-	-	1,020,714	1,275,762
Other	1,958,617	299,651	650,623	408,606
	9,784,979	10,216,255	7,541,034	8,963,114

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

29. Due to other Banks

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Items in course of payment	3,216,262	3,324,039	3,203,525	3,312,741
Borrowings from other banks	13,853,851	8,210,685	11,803,851	8,210,684
Deposits from other banks	53,605	234,335	3,474,342	3,136,583
Other	1,863	2,938	1,862	2,938
	17,125,581	11,771,997	18,483,580	14,662,946
Interest payable	141,994	43,203	120,974	24,153
	17,267,575	11,815,200	18,604,554	14,687,099

Items in the course of payment primarily represent cheques drawn by the Bank which have been accounted for as a deduction from its bank balances but which have not been presented on its bank accounts. These relate to accounts held with banks outside of Jamaica and at Central Banks. Borrowings from other banks are denominated in United States dollars and have various maturity dates. These attract interest at 5.56%-10.62% per annum.

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Total due to other banks	17,125,581	11,771,997	18,483,580	14,662,946
Less: amounts with original maturities of greater than 90 days	(7,477,272)	(2,010,900)	(8,839,712)	(2,010,828)
	9,648,309	9,761,097	9,643,868	12,652,118

30. Obligations under Securitisation Arrangements

	The Group and The Bank	
	2019	2018
	$'000	$'000
Diversified payment rights		
Principal outstanding – US$50,000,000 (2018 – US$83,333,000)	6,707,100	11,171,267
Merchant voucher receivables		
Principal outstanding – US$308,649,000 (2018 –US$355,656,000)	41,402,758	47,677,530
	48,109,858	58,848,797
Unamortised transaction fees	(369,758)	(526,985)
	47,740,100	58,321,812
Interest payable	565,723	670,854
Net liability	48,305,823	58,992,666

The current portion of obligations under securitisation arrangements amounted to $13,772,240,000 (2018 – $11,171,266,000).

Diversified Payment Rights

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

On May 30, 2013, NCBJ raised US$100 million through the Diversified Payments Rights Securitisation (Series 2013-1 Notes). The transaction was structured with an interest-only period of eighteen months and thereafter quarterly principal amortisation on a straight line basis, beginning September 15, 2014 to final maturity on March 15, 2018. Interest is due and payable on a quarterly basis calculated at three month US dollar LIBOR plus 675 basis points beginning September 15, 2015.

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

On April 25, 2014, the holders of the Series 2013-1 Notes exercised their option to extend the maturity of the Notes by 12 months, adjusting the principal amortisation to commence on September 15, 2015 and final maturity to March 15, 2019.

30. Obligations under Securitisation Arrangements (Continued)

Diversified Payment Rights (continued)

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

On March 28, 2016, the holders of the Series 2013-1 Notes exercised their third and final option to extend the maturity of the Notes by 12 months, adjusting the principal amortisation to commence on September 15, 2017 and final maturity to March 15, 2021.

Merchant Voucher Receivables

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

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

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

On May 18, 2015, NCBJ raised US$250 million through the MVR securitisation transaction. The transaction was structured on a mortgage-style amortisation basis with an interest-only period of twenty eight months and thereafter quarterly principal amortisation, beginning October 6, 2018 to final maturity on July 8, 2022. Interest is due and payable on a quarterly basis calculated at a rate of 5.875% beginning July 7, 2015.

On November 21, 2016, NCBJ raised an additional US$150 million through the MVR securitisation transaction. The transaction was structured on a mortgage-style amortisation basis with an interest-only period of forty-one months and thereafter quarterly principal amortisation, beginning July 7, 2020 to final maturity on January 8, 2027. Interest is due and payable on a quarterly basis calculated at a rate of 5.625% beginning January 9, 2018.

31. Other Borrowed Funds

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
(a) Development Bank of Jamaica	4,529,782	4,730,513	3,238,305	3,366,222
(b) Customer long-term investments	-	6,500	-	-
(c) Corporate notes	27,439,212	29,940,775	7,000,000	7,000,000
(d) Principal protected notes	173,527	423,850	-	-
(e) National Housing Trust	1,604,295	673,745	1,604,295	673,745
(f) Finance lease obligations	558,865	471,383	533,319	453,120
(g) Other	63,205	1,463	61,496	-
	34,368,886	36,248,229	12,437,415	11,493,087
Unamortised transaction fees	(21,644)	(48,176)	(21,644)	(48,176)
Interest payable	307,587	218,607	117,599	117,516
	34,654,829	36,418,660	12,533,370	11,562,427

The current portion of other borrowed funds amounted to $15,043,597,000 (2018 – $21,571,000) for the Group and $3,005,808,000 (2018 – $58,686,000) for the Bank.

(a) The loans from Development Bank of Jamaica are granted in both Jamaican and US dollars and are utilised by the Group to finance customers with viable ventures in agricultural, agro-industrial, construction, manufacturing, mining and tourism sectors of the economy. These loans are for terms up to 12 years and at rates ranging from 3.5% – 7%.

(b) Customer long-term investments represented investments placed by customers for a minimum period of five (5) years. The investments were at variable interest rates and were not subject to withholding tax if held to maturity. They were repaid in 2019.

(c) Corporate notes are both unsecured and secured variable and fixed rate notes issued in a combination of Jamaican dollars and United States dollars. The notes are repayable between 2018 and 2022. The fixed rate notes attract interest between 4.5% and 9.0% and the variable rate notes attract interest of the six month weighted average on treasury bill yield plus 2.25% - 2.5% per annum.

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

31. Other Borrowed Funds (Continued)

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

(f) The finance lease obligations are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Minimum lease payments under finance leases:				
Not later than 1 year	321,090	251,899	309,409	241,295
Later than 1 year and not later than 5 years	279,897	280,274	261,020	269,646
	600,987	532,173	570,429	510,941
Future finance charges	(42,122)	(60,790)	(37,110)	(57,821)
Present value of finance lease obligations	558,865	471,383	533,319	453,120

The present value of finance lease obligations is as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Not later than 1 year	292,367	214,276	283,467	205,523
Later than 1 year and not later than 5 years	266,498	257,107	249,852	247,597
	558,865	471,383	533,319	453,120

32. Interests in Structured Entities

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

Consolidated Structured Entities

Securitisation Vehicles

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

Unconsolidated Structured Entity

The Group manages a Unit Trust Scheme comprising seven portfolios – the JMD Money Market Portfolio, the JMD High Yield Portfolio, the High Yield Asset and Loans Portfolio, the Caribbean Equity Portfolio, the USD Money Market Portfolio, the USD Indexed Bond Portfolio and the USD Bond Portfolio.

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

32. Interests in Structured Entities (Continued)

Unconsolidated Structured Entity **(continued)**

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

	The Group	
	2019	2018
	$'000	$'000
Total assets of the Unit Trust	35,664,095	35,172,540
The Group's interest – Carrying value of units held (included in FVOCI securities – Note 21)	186,545	148,819
Maximum exposure to loss	186,545	148,819
Liability to the Unit Trust in relation to investment in repurchase obligations (included in repurchase obligations on the consolidated statement of financial position)	2,090,433	2,732,729
Total income from the Group's interests	720,448	681,760

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

33. Liabilities under Annuity and Insurance Contracts

The Group's liabilities under annuity and insurance contracts arise from the operations of its life insurance subsidiary and its general insurance subsidiary. The general insurance subsidiary was disposed of during the year.

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

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

Liabilities under Annuity and Insurance Contracts comprise the following:

	The Group	
	2019	2018
	$'000	$'000
Liabilities under life insurance and annuity contracts	28,776,695	31,285,228
Liabilities under general insurance contracts	-	6,807,779
	28,776,695	38,093,007

Liabilities under Life Insurance and Annuity Contracts

	The Group	
	2019	2018
	$'000	$'000
(a) Composition of liabilities under life insurance and annuity contracts:		
Life assurance fund	29,207,164	27,922,603
Risk reserve	(622,212)	3,199,883
Benefits and claims payable	92,388	67,882
Unprocessed premiums	99,355	94,860
	28,776,695	31,285,228

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

	The Group	
	2019	**2018**
	$'000	**$'000**
(b) Change in policyholders' liabilities:		
Life assurance fund:		
At the beginning of the year	27,922,603	25,915,372
Gross premiums	4,029,888	4,464,505
Premium refunds	(1,928)	(956)
Mortality charges transferred to the income statement	(161,469)	(120,033)
Fees transferred to the income statement	(473,821)	(493,871)
Claims and benefits	(3,092,506)	(2,809,528)
Interest credited	984,397	967,114
At the end of the year	29,207,164	27,922,603
Risk reserve:		
At the beginning of the year	3,199,883	3,028,489
Issue of new contracts	(7,601)	872,484
Normal changes	(334,563)	838,257
Effect of change in assumptions:		
Base renewal expense levels	(1,081,657)	(461,552)
Investment returns	(2,520,150)	(155,898)
Lapse and surrender rates	(26,399)	(4,915)
Mortality rates	148,275	(888,515)
Disability	-	(28,467)
At the end of the year	(622,212)	3,199,883
Benefits and claims payable:		
At the beginning of the year	67,882	71,366
Policyholders' claims and benefits	332,631	229,545
Benefits and claims paid	(308,125)	(233,029)
At the end of the year	92,388	67,882
Unprocessed premiums:		
At the beginning of the year	94,860	90,891
Premiums received	7,473,010	8,543,310
Premiums applied	(7,468,515)	(8,539,341)
At the end of the year	99,355	94,860

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

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

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

	The Group 2018			
	Annuity	Individual life	Group life	Total
	$'000	$'000	$'000	$'000
Balance brought forward	7,804,064	(5,680,072)	904,497	3,028,489
Changes in assumptions:				
Investment returns	(242,427)	53,796	32,733	(155,898)
Base renewal expense levels and inflation	(7,862)	(481,167)	(990)	(490,019)
Lapse and surrender rates	-	(6,124)	1,209	(4,915)
Mortality rates	317,496	(969,457)	(236,554)	(888,515)
	67,207	(1,402,952)	(203,602)	(1,539,347)
Issue of new contracts	855,817	(691,005)	707,672	872,484
Normal changes	142,457	948,725	(252,925)	838,257
Net change	1,065,481	(1,145,232)	251,145	171,394
	8,869,545	(6,825,304)	1,155,642	3,199,883

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)
The Group's life insurance subsidiary holds assets that match insurance liabilities. These assets comprise mainly investment securities, which are classified as FVOCI (available-for-sale 2018) and amortised cost (loans and receivables 2018), and reverse repurchase agreements.

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

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

	The Group			
	2018			
	Annuity Contracts	Individual and Group Life Insurance Contracts	Other Liabilities, Surplus and Capital	Total
	$'000	$'000	$'000	$'000
Investment securities	11,650,871	31,113,791	8,264,247	51,028,909
Reverse repurchase agreements	85,091	292,162	-	377,253
Other assets	82,525	565	1,304,776	1,387,866
Property, plant and equipment	-	-	20,543	20,543
Intangible asset – computer software	-	-	313,831	313,831
	11,818,487	31,406,518	9,903,397	53,128,402

(expressed in Jamaican dollars unless otherwise indicated)

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)
Policy assumptions
For insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect the latest best estimates. The assumptions used for valuing the insurance contracts disclosed in this note are as follows:

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

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

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

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

	The Group	
	2018	
	Individual & Group Life	**Annuities**
Year 1	6.52%	13.24%
Year 2 – 10	Decreasing to 6.05%	13.24%
Year 11 – 29	Decreasing to 5.05%	13.24%
Years 29 onwards	5.00%	13.12%
Year 39 onwards	-	11.72%

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

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under Life Insurance and Annuity Contracts (continued)

Policy assumptions (continued)

Persistency

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

Renewal expenses and inflation

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

	2019	2018
Year 1	4.42%	4.50%
Year 2 – 10	Decreasing to 3.71%	Decreasing to 3.79%
Year 11 – 18 (11-25 2018)	Decreasing to 3.08%	Decreasing to 3.00%
Year 19 onwards (25 – 2018)	3.00%	3.00%

Taxation

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

Provisions for adverse deviations

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

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

Sensitivity analysis

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

	Change in Variable	**Change in Liability**	
		2019	**2018**
	%	**$'000**	**$'000**
Lowering of investment returns	1	2,637,755	3,144,229
Increase in investment returns	1	(2,223,452)	(2,575,314)
Worsening of base renewal expense levels	5/10	88,796	(210,115)
Improvement in base renewal expense levels	10	-	210,158
Worsening of mortality	10	205,001	(80,639)
Improvement in mortality	10	(212,893)	79,663
Worsening of lapse and surrender rates	10	745,472	(501,027)
Improvement in lapse and surrender rates	10	(840,576)	441,740

33. Liabilities under Annuity and Insurance Contracts (Continued)

Liabilities under General Insurance Contracts

	The Group	
	2019 $'000	2018 $'000
Gross:		
Claims outstanding	-	4,083,352
Unearned premiums	-	2,724,427
	-	6,807,779
Reinsurance ceded		
Claims outstanding	-	(10,655)
Unearned premiums	-	(399,328)
	-	(409,983)
Net:		
Claims outstanding	-	4,072,697
Unearned premiums	-	2,325,099
	-	6,397,796

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

	The Group 2019			The Group 2018		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Notified claims	2,071,886	(8,526)	2,063,360	2,687,327	(25,648)	2,661,679
Claims incurred but not reported	2,011,466	(2,129)	2,009,337	1,932,069	(14,144)	1,917,925
Balance at beginning of year	4,083,352	(10,655)	4,072,697	4,619,396	(39,792)	4,579,604
Claims incurred	3,190,154	(166,853)	3,023,301	2,983,206	2,834	2,986,040
Claims paid	(3,574,963)	42,963	(3,532,000)	(3,519,250)	26,303	(3,492,947)
Disposal of subsidiary	(3,698,543)	134,545	(3,563,998)	-	-	-
Balance at end of year	-	-	-	4,083,352	(10,655)	4,072,697
Comprising:						
Notified claims	-	-	-	2,071,886	(8,526)	2,063,360
Claims incurred but not reported	-	-	-	2,011,466	(2,129)	2,009,337
	-	-	-	4,083,352	(10,655)	4,072,697

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33. Liabilities under Insurance and Annuity Contracts (Continued)

Liabilities under General Insurance Contracts (continued)

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

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

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

	The Group 2019			The Group 2018		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at beginning of year	2,724,427	(399,328)	2,325,099	2,459,806	(204,847)	2,254,959
Premiums written	5,986,969	(1,490,772)	4,496,197	5,672,695	(781,942)	4,890,753
Premiums earned	(5,728,276)	991,689	(4,736,587)	(5,408,074)	587,461	(4,820,613)
Disposal of subsidiary	(2,983,120)	898,411	(2,084,709)	-	-	-
Balance at end of year	-	-	-	2,724,427	(399,328)	2,325,099
Comprising, by type of business:						
Liability insurance contracts	-	-	-	38,431	(15,739)	22,692
Motor insurance contracts	-	-	-	2,215,642	(87)	2,215,555
Pecuniary loss insurance contracts	-	-	-	49,310	(44,511)	4,799
Property insurance contracts	-	-	-	421,044	(338,991)	82,053
	-	-	-	2,724,427	(399,328)	2,325,099

34. Post-employment Benefits

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Pension schemes	-	46,448	-	-
Other post-employment benefits	5,601,389	5,456,525	5,601,389	5,188,004
	5,601,389	5,502,973	5,601,389	5,188,004

The amounts recognised in the income statement are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Pension schemes (Note 10)	57,547	21,316	-	-
Other post-employment benefits (Note 10)	765,345	960,684	736,403	931,347
	822,892	982,000	736,403	931,347

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Pension schemes	(79,246)	182,975	-	-
Other post-employment benefits	(239,711)	423,379	(241,708)	412,157
	(318,957)	606,354	(214,708)	412,157

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34. Post-employment Benefits (Continued)

(a) Pension schemes

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

National Commercial Bank Staff Pension Fund 1986

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

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

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

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

National Commercial Bank Staff Pension Fund 1999

This is a defined contribution scheme which is funded by payments from employees and by the relevant companies. Group companies contribute an amount equivalent to 5% of employees' salary to the scheme each pay cycle and employees must contribute at least 5% and up to a maximum of 15%. Contribution to the scheme for the year was $452,137,000 (2018 – $418,371,000).

Advantage General Insurance Company Limited Superannuation Fund

The Group's former subsidiary, Advantage General Insurance Company Limited (AGIC), sponsors a defined benefit pension scheme, which is open to all its employees who have satisfied certain minimum service requirements, and is managed by NCB Insurance Company Limited. Retirement and other benefits are based on average salary for the last three years of pensionable service. The scheme is funded by employee contributions of at least 5% and up to a maximum of 10% of salary and employer contributions as recommended by the actuary consequent on triennial funding reviews. AGIC was disposed of during the year, and consequently no amounts are recognised in these financial statements for the current year.

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

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
	$'000	$'000	$'000	$'000
Present value of funded obligations	32,911,272	-	27,481,763	1,195,080
Fair value of plan assets	(41,291,898)	-	(32,837,947)	(1,148,632)
(Over)/under – funded obligations	(8,380,626)	-	(5,356,184)	46,448
Limitation on pension assets	8,380,626	-	5,356,184	-
	-	-	-	46,448

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The schemes are valued by actuaries annually using the projected unit credit method; the latest such valuation being carried out as at September 30, 2019 for the Bank's scheme and at August 31, 2019 for the AGIC scheme.

The movement in the defined benefit obligation is as follows:

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
	$'000	$'000	$'000	$'000
At beginning of year	27,481,763	1,195,080	23,304,895	884,946
Employee's contributions	-	40,778	-	35,517
Service cost	-	46,020	-	25,820
Interest cost	1,999,509	89,485	2,028,154	79,987
Remeasurements:				
Experience losses/(gains)	2,791,549	(48,768)	844,083	24,712
Losses from changes in financial assumptions	1,831,742	106,228	2,844,333	180,285
Demographic assumptions	449,990	(69,156)	(1,539,702)	(36,187)
Benefits paid	(1,643,281)	(41,941)	-	-
Disposal of subsidiary	-	(1,317,726)	-	-
At end of year	32,911,272	-	27,481,763	1,195,080

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

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
	$'000	$'000	$'000	$'000
At beginning of year	32,837,947	1,148,632	29,107,197	1,007,304
Interest on plan assets	2,401,223	87,032	2,550,362	92,126
Remeasurement - return on plan assets, excluding amounts included in interest on plan assets	7,696,009	151,355	2,720,090	22,021
Contributions	-	77,229	-	71,003
Administration fees	-	(9,073)	-	(7,635)
Benefits paid	(1,643,281)	(41,941)	(1,539,702)	(36,187)
Disposal of subsidiary	-	(1,413,234)	-	-
At end of year	41,291,898	-	32,837,947	1,148,632

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34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

The amounts recognised in the income statement are as follows:

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
	$'000	$'000	$'000	$'000
Current service cost	-	46,020	-	25,820
Administration fees	-	9,073	-	7,635
Net interest expense	-	2,454	-	(12,139)
Total, included in staff costs	-	57,547	-	21,316

The amounts recognised in other comprehensive income are as follows:

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
	$'000	$'000	$'000	$'000
Loss/(gain) on present value of funded obligations	5,073,281	(11,696)	3,688,416	204,996
Gain on fair value of plan assets	(7,696,009)	(151,356)	(2,720,090)	(22,021)
Change in effect of asset ceiling	2,622,728	-	(968,326)	-
Net gain	-	(163,052)	-	182,975

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

	2019		2018	
	$'000	%	$'000	%
Equity securities	25,973,657	62.90	17,279,315	52.62
Debt securities	12,532,930	30.35	12,982,081	39.53
Real estate and other	2,785,311	6.75	2,576,551	7.85
	41,291,898	100.00	32,837,947	100.00

These plan assets included:

- Ordinary stock units of NCB Financial Group Limited with a fair value of $13,859,766,000 (2018 – $6,257,404,000).
- Repurchase obligations, promissory notes and lease obligations of the Group aggregating $489,149,000 (2018 – $307,400,000).
- Properties occupied by the Group with a fair value of $695,800,000 (2018 - $665,444,000).

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34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

Expected contributions to the Bank's defined benefit pension schemes for the year ending September 30, 2020 is Nil.

The principal actuarial assumptions used are as follows:

	2019		2018	
	The Bank	AGIC	The Bank	AGIC
Discount rate	6.50%	6.50%	7.50%	7.50%
Future salary increases	5.00%	5.00%	6.00%	6.00%
Future pension increases	3.00%	-	3.50%	-

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

The average duration of the defined benefit pension obligation at September 30, 2019 is 11.7 years (2018 – 11.7 years) for the Bank's defined benefit scheme.

34. Post-employment Benefits (Continued)

(a) Pension schemes (continued)

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

The Bank

	Increase/(decrease) in defined benefit obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
		$'000	**$'000**
Discount rate	1%	(3,419,581)	4,145,992
Future salary increases	1%	119,219	(114,047)
Future pension increases	1%	3,708,602	(3,146,343)
Life expectancy	1 year	956,000	(996,000)

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

34. Post-employment Benefits (Continued)

(b) Other post-employment benefits

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

In addition to the assumptions used for pension schemes, the main actuarial assumption is a long-term increase in health costs of 2.0 percentage points above CPI per year (2018 – 1.5 percentage points above CPI).

The average duration of the other post-employment benefits obligation at September 30, 2019 is 19 years for the Bank.

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Present value of unfunded obligations	5,601,389	5,456,525	5,601,389	5,188,004

The movement in the defined benefit obligation is as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
At beginning of the year	5,456,525	4,143,054	5,188,004	3,912,614
Service cost	358,831	590,097	349,958	581,414
Interest cost	406,514	370,587	386,446	349,933
Remeasurements:				
Experience (gains)/losses	(20,989)	27,429	(22,753)	29,990
Demographic assumptions	(142,100)	891,833	(146,622)	850,585
Gains from changes in financial assumptions	(76,622)	(495,883)	(72,333)	(468,418)
Benefits paid	(84,035)	(70,592)	(81,311)	(68,114)
Disposal of subsidiary	(296,735)	-	-	-
At end of year	5,601,389	5,456,525	5,601,389	5,188,004

The amounts recognised in the income statement are as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Service cost	358,831	590,097	349,957	581,414
Net interest expense	406,514	370,587	386,446	349,933
Total, included in staff costs (Note 10)	765,345	960,684	736,403	931,347

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34. Post-employment Benefits (Continued)

(b) Other post-employment benefits (continued)

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

The Bank	Increase/(decrease) in obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		$'000	$'000
Discount rate	1%	(910,016)	1,195,036
Medical cost inflation	1%	1,184,079	(918,094)
Life expectancy	1 year	179,890	(175,620)

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

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

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

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

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

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

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

35. Other Liabilities

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Accrued staff benefits	4,610,284	4,695,000	3,962,075	3,925,948
Due to customers, merchants and clients	14,148,367	5,601,630	5,258,273	2,590,645
Accrued other operating expenses	4,471,678	2,569,734	2,309,051	1,431,923
Due to Government of Jamaica	302,114	267,370	345,958	209,124
Management fees	2,806,533	3,664,696	2,806,533	3,664,696
Other	800,510	926,633	793,007	760,507
	27,139,486	17,725,063	15,474,449	12,582,843

36. Share Capital

	The Group	
	2019	2018
	$'000	$'000
Authorised - unlimited		
Issued and fully paid up –		
2,466,762,828 ordinary stock units of no par value	6,465,731	6,465,731
Issued and outstanding	6,465,731	6,465,731

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37. Fair Value and Capital Reserves

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Fair value reserve	5,911,131	(1,251,289)	1,871,706	(1,520,189)
Capital reserve	5,003,136	4,916,237	374,471	374,471
	10,914,267	3,664,948	2,246,177	(1,145,718)
Capital reserve comprises:				
Realised –				
Capital gains from the Scheme of Arrangement	-	-	300,564	300,564
Surplus on revaluation of property, plant and equipment	92,991	92,991	-	-
Retained earnings capitalised	98,167	98,167	-	-
Share redemption reserve	1,077,382	1,077,382	-	-
Unrealised –				
Translation reserve	3,202,840	3,112,057	-	-
Surplus on revaluation of property, plant and equipment	142,963	142,963	73,907	73,907
Share of movement in reserves of associate	-	(62,107)	-	-
Other	388,793	454,784	-	-
	5,003,136	4,916,237	374,471	374,471

38. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 20).

39. Banking Reserve Fund

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

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

40. Retained Earnings Reserve

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

41. Cash Flows from Operating Activities

	Note	The Group		The Bank	
		2019 $'000	2018 $'000	2019 $'000	2018 $'000
Net profit		25,297,608	23,952,177	24,730,237	17,789,299
Adjustments to reconcile net profit to net cash flow provided by operating activities:					
Depreciation	26	1,864,194	1,621,460	1,753,919	1,522,837
Amortisation of intangible assets	25	1,925,514	1,393,445	1,658,609	1,087,531
Gain on disposal of subsidiary		(2,626,425)	-	-	-
Gain on disposal of associate	22	(3,291,544)	(837,480)	(7,107,970)	(2,181,894)
Share of after tax profits of associates	22	(10,089)	(950,459)	-	-
Credit impairment losses	12	3,306,476	1,920,771	3,288,510	1,637,771
Interest income	5	(53,495,621)	(48,598,918)	(41,520,202)	(36,647,984)
Interest expense	5	14,605,914	15,033,654	9,473,046	9,941,697
Income tax expense	14	5,740,079	6,613,716	2,604,772	3,486,336
Unrealised exchange (gains)/losses on securitisation arrangements		(1,940,791)	700,599	(1,940,791)	700,599
Amortisation of upfront fees on securitisation arrangements		157,227	228,978	157,227	228,978
Unrealised exchange losses on other borrowed funds		68,474	271,994	152,983	5,471
Change in post-employment benefit obligations	34	1,067,251	982,000	1,067,251	931,347
Foreign exchange gains	7	(3,659,174)	(5,120,396)	(3,591,274)	(3,995,072)
Gain on disposal of property, plant and equipment and intangible assets		(66,708)	(360,657)	(82,038)	(365,259)
Fair value gains on investment property	23	-	(17,717)	-	-
Fair value losses on derivative financial instruments	7	(25,673)	31,401	(25,673)	31,401
Changes in operating assets and liabilities:					
Statutory reserves at Central Bank		6,634,028	(4,552,605)	6,505,920	(4,136,298)
Pledged assets included in due from other banks		(1,207)	(67,475)	49,192	(67,475)
Restricted cash included in due from other banks		174,299	281,386	171,375	281,386
Reverse repurchase agreements		2,836,510	(2,816,437)	191	(1,478,673)
Loans and advances		(40,221,120)	(28,108,210)	(37,204,661)	(25,842,394)
Customer deposits		15,260,869	31,001,569	17,365,311	29,429,337
Repurchase agreements		22,592,223	37,121,959	18,607,736	21,730,515
Liabilities under annuity and insurance contracts		(2,634,648)	1,907,687	-	-
Other		6,890,183	(2,955,686)	4,314,171	1,745,506
		(24,849,759)	4,724,579	(24,302,396)	(1,954,337)
Interest received		52,268,271	47,827,864	41,975,045	32,725,239
Interest paid		(14,462,512)	(15,092,264)	(9,923,604)	(10,260,065)
Income tax paid		(6,737,184)	(7,370,550)	(1,378,950)	(6,839,839)
		6,218,816	30,089,629	6,370,095	13,670,998
Net cash provided by operating activities		31,516,424	54,041,806	31,100,332	31,460,297

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42. Related Party Transactions and Balances

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

	The Group							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Loans and advances								
Balance at September 30	2,579,095	36,042	-	411,345	434,301	386,720	26,049	1,097,751
Interest income earned	76,577	369,348	-	51,235	27,199	20,122	5,889	82,521
Investment securities								
Balance at September 30	27,900,018	23,792,131	-	-	-	-	-	-
Interest income earned	1,717,806	1,714,611	-	-	-	-	-	-
Reverse repurchase agreements								
Balance at September 30	-	-	-	2,349,807	-	-	-	-
Interest income earned	-	-	36,364	14,887	-	-	-	-
Other assets								
Balance at September 30	8,362	520	-	-	-	-	261,040	209,355
Fee and commission income	144,987	36,760	1,978	11,247	73,963	7,297	19,208	34,897
Other operating income	-	-	-	-	270	288	1,010,558	843,296
Dividend income	-	-	68,518	201,525	-	-	17,791	14,257

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42. Related Party Transactions and Balances (Continued)

	The Group (Continued)							
	Parent and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Customer deposits								
Balance at September 30	4,141,104	17,485,349	305,033	1,919,070	1,038,463	517,825	1,149,201	871,206
Interest expense	172,490	1,195,929	2,250	4,531	1,650	878	934	2,081
Repurchase agreements								
Balance at September 30	514,258	367,351	-	10,055	717,991	850,931	1,017,497	984,156
Interest expense	10,267	4,603	125,630	11,812	8,983	7,599	23,828	37,651
Other borrowed funds								
Balance at September 30	7,117,178	7,115,932	-	-	-	-	-	-
Interest expense	455,000	115,932	-	-	-	-	-	-
Other liabilities								
Balance at September 30	2,994,435	3,664,696	-	-	99,802	92,349	-	-
Operating expenses	6,869,355	3,500,000	5,592	6,340	6,294	20,570	1,041,769	1,645,643

42. Related Party Transactions and Balances (Continued)

	The Bank							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Loans and advances								
Balance at September 30	2,579,095	36,042	-	411,345	402,217	386,720	26,049	1,097,751
Interest income earned	76,577	369,348	-	51,235	25,819	20,122	5,889	82,521
Reverse repurchase agreements								
Balance at September 30	223,923	1,484,901	-	-	-	-	-	-
Interest income earned	37,425	23,324	36,364	5,778	-	-	-	-
Other assets								
Balance at September 30	1,193,691	1,526,292	-	-	-	-	-	-
Fee and commission income	136,954	63,543	1,978	11,247	252	314	8,586	2,282
Dividend income	11,310,832	6,902,582	68,518	201,525	-	-	17,791	14,257
Other operating income	2,977,659	2,937,618	-	-	-	-	-	-

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42. Related Party Transactions and Balances (Continued)

	The Bank (Continued)							
	Parent, subsidiaries and companies controlled by major shareholder		Associated companies of the group		Directors and key management personnel (and their families)		Companies controlled by directors and related by virtue of common directorship	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Customer deposits								
Balance at September 30	9,949,682	22,847,107	305,033	1,919,070	1,038,463	517,825	1,145,989	871,206
Interest expense	412,251	1,207,811	2,250	4,531	1,650	878	933	2,081
Repurchase agreements								
Balance at September 30	15,310,386	15,885,408	-	-	-	-	-	-
Interest expense	117,106	345,150	125,630	11,573	-	-	-	-
Due to other banks								
Balance at September 30	3,420,737	2,902,248	-	-	-	-		-
Interest expense	230,944	176,831	-	-	-	-		-
Other borrowed funds								
Balance at September 30	7,117,178	7,115,932	-	-	-	-	-	-
Interest expense	455,000	115,932	-	-	-	-	-	-
Other liabilities								
Balance at September 30	537,164	3,723,254	-	-	-	-	-	-
Operating Expenses	4,668,286	3,877,049	5,592	6,340	6,294	20,570	1,041,769	1,645,643

42. Related Party Transactions and Balances (Continued)

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Key management compensation:				
Salaries and other short-term benefits	1,063,657	736,127	781,985	499,666
Post-employment benefits	48,654	44,223	40,966	34,968
	1,112,311	780,350	822,952	534,634
Directors' emoluments:				
Fees	12,416	16,351	7,557	8,111
Management remuneration	25,152	-	25,152	-

The management remuneration represents compensation for the two months ended September 30, 2019 for the executive director that was appointed on August 1, 2019.

43. Financial Risk Management

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

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

Risk Governance Structure

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

43. Financial Risk Management (Continued)

Risk limits and benchmarks are integral to the risk management process, as they characterise the Board's risk tolerance and also that of the Regulator. Limits are established for:
(i) Credit and Counterparty risk - exposures to individuals, group, counterparty, country;
(ii) Market risk - rate gap exposure, currency exposure, market value exposure; and
(iii) Liquidity risk - liquidity gaps, funding exposures/liability diversification and liquid assets levels.

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

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

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

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

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

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

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to risks similar to loans and these are mitigated by the same control policies and processes.

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

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

Standard
Special Mention
Sub-Standard
Doubtful
Loss

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

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

	The Group			
	2019			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	6,878,023	(4,989,538)	1,888,485	12,127,043
Debt securities	517,721	(363,215)	154,506	-
Total credit-impaired assets	7,395,744	(5,352,743)	2,042,991	12,127,043

	The Group			
	2018			
	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	3,524,131	(2,724,245)	799,886	14,431,929
Debt securities	333,208	(283,883)	49,325	-
Total credit-impaired assets	3,857,339	(3,008,128)	849,211	14,431,929

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

	The Bank 2018			
	Gross exposure	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets	**$000**	**$000**	**$000**	**$000**
Loans and advances	3,524,131	(2,724,245)	799,886	14,431,929
Total credit-impaired assets	3,524,131	(2,724,245)	799,886	14,431,929

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

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

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

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

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

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

The Group

	2019		2018	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	299,397,716	1,545,545	265,473,362	1,108,279
Special Mention	8,731,231	69,883	5,762,736	25,262
Sub-Standard	3,782,151	970,386	2,049,953	638,058
Doubtful	1,681,915	1,269,576	1,902,485	650,434
Loss	5,106,650	2,798,785	4,088,007	1,723,669
	318,699,663	6,654,175	279,276,543	4,145,702

The Bank

	2019		2018	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Standard	290,550,429	1,523,644	259,920,049	1,105,736
Special Mention	8,731,231	69,883	5,483,971	25,262
Sub-Standard	3,779,918	969,827	2,049,953	638,058
Doubtful	1,681,915	1,269,576	1,888,543	649,958
Loss	5,083,186	2,789,770	4,070,562	1,706,236
	309,826,679	6,622,700	273,413,078	4,125,250

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

The credit quality of loans is summarised as follows:

	The Group		The Bank	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Unimpaired	311,821,640	275,752,412	302,974,353	269,888,947
Impaired	6,878,023	3,524,131	6,852,326	3,524,131
Gross	318,699,663	279,276,543	309,826,679	273,413,078
Less: provision for credit losses	(6,654,175)	(4,145,702)	(6,622,700)	(4,125,250)
Net	312,045,488	275,130,841	303,203,979	269,287,828

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

	The Group		The Bank	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Less than 30 days	81,841,717	49,696,777	78,576,232	48,964,499
31 to 60 days	6,465,217	4,421,815	6,422,441	4,037,200
61 to 90 days	3,729,350	2,642,999	3,721,050	2,598,612
Greater than 90 days	1,068,375	2,208,949	1,057,893	2,177,100
	93,104,659	58,970,540	89,777,616	57,777,411

Of the aggregate amount of gross past due but not impaired loans, $62,753,969,000 was secured as at September 30, 2019 (2018 – $39,335,412,000).

Restructured loans

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Restructured loans (continued)

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

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

Credit risk exposure

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

	The Group		The Bank	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Credit risk exposures relating to on-statement of financial position assets:				
Balances with Central Banks	46,953,461	63,948,652	46,004,030	63,078,035
Due from other banks	62,301,265	42,977,138	50,841,639	38,615,612
Derivative financial instruments	239,279	233,329	-	-
Reverse repurchase agreements	2,925,572	3,807,177	223,923	1,532,332
Loans and advances, net of provision for credit losses	312,914,928	277,002,958	304,012,102	271,123,032
Investment securities	366,789,727	353,941,529	162,862,597	142,843,876
Letters of credit and undertaking	2,051,519	2,305,130	2,051,519	2,305,130
Other assets	7,910,701	8,266,203	6,094,081	7,120,890
	802,086,452	752,482,116	572,089,891	526,618,907
Credit risk exposures relating to off-statement of financial position items:				
Credit commitments	58,769,156	55,291,271	58,769,156	54,956,133
Acceptances, guarantees and indemnities	8,673,177	8,444,661	6,765,956	6,161,581
	67,442,333	63,735,932	65,535,112	61,117,714

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Credit exposures

(i) Loans

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

	The Group		The Bank	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Agriculture	8,761,071	8,981,384	8,761,071	8,979,955
Public Sector	4,849,076	7,012,104	3,508,502	6,175,730
Construction and land development	19,021,235	13,502,898	18,620,713	12,673,918
Other financial institutions	313,728	642,291	287,338	613,731
Distribution	43,321,584	25,926,312	41,446,608	23,932,701
Electricity, water & gas	12,971,352	9,849,945	12,367,927	9,513,735
Entertainment	1,342,061	1,422,772	1,342,061	1,422,772
Manufacturing	7,036,936	8,202,738	6,680,082	7,843,226
Mining and processing	4,585,903	2,997,701	4,585,903	2,997,701
Personal	153,975,667	129,491,920	151,366,135	129,099,388
Professional and other services	16,282,525	14,912,263	15,666,045	13,898,022
Tourism	36,725,583	34,737,136	35,718,051	34,715,301
Transportation storage and communication	7,101,372	2,068,445	7,064,673	2,018,264
Overseas residents	2,411,570	19,528,634	2,411,570	19,528,634
Total	318,699,663	279,276,543	309,826,679	273,413,078
Expected credit losses	(6,654,175)	(4,145,702)	(6,622,700)	(4,125,250)
	312,045,488	275,130,841	303,203,979	269,287,828
Interest receivable	869,440	1,872,117	808,123	1,835,204
Net	312,914,928	277,002,958	304,012,102	271,123,032

(ii) Debt securities

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

	The Group		The Bank	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Government of Jamaica and Bank of Jamaica	238,262,293	254,488,944	142,240,088	127,195,759
Corporate bonds	107,531,722	81,741,376	13,842,266	9,102,373
Foreign governments	17,412,649	13,444,686	5,019,307	4,462,993
	363,206,664	349,675,006	161,101,661	140,761,125
Interest receivable	3,819,786	4,266,523	1,799,962	2,082,751
ECL	(236,723)	-	(39,026)	-
	366,789,727	353,941,529	162,862,597	142,843,876

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk

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

	The Group				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	70,397,540	-	-	-	70,397,540
Medium	282,481,040	205,540	-	-	282,686,580
High	3,596,739	-	-	-	3,596,739
Default	-	-	517,721	-	517,721
Gross carrying amount	356,475,319	205,540	517,721	-	357,198,580
Loss allowance amortised cost	(236,723)	-	-	-	(236,723)
Loss allowance FVOCI	(1,488,021)	(1,649)	(363,215)	-	(1,852,885)
	354,750,575	203,891	154,506	-	355,108,972

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

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

	The Bank				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DEBT SECURITIES	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	11,530,173	-	-	-	11,530,173
Medium	151,059,814	-	-	-	151,059,814
Gross carrying amount	162,589,987	-	-	-	162,589,987
Loss allowance amortised cost	(39,025)	-	-	-	(39,025)
Loss allowance FVOCI	(485,742)	-	-	-	(485,742)
	162,065,220	-	-	-	162,065,220

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

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

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

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

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

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Maximum exposure to credit risk (continued)

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

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

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

43. Financial Risk Management (Continued)

(a) Credit risk (continued)
Maximum exposure to credit risk (continued)

	The Bank				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Risk rating					
Low	214	-	-	-	214
Loss allowance	214	-	-	-	214

Loss allowance

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

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

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43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

	The Group				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
LOANS AND ADVANCES	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	1,215,100	206,357	2,724,245	-	4,145,702
Transfers:					
Transfer from Stage 1 to Stage 2	(178,598)	178,598	-	-	-
Transfer from Stage 1 to Stage 3	(1,706,230)	-	1,706,230	-	-
Transfer from Stage 2 to Stage 1	13,155	(13,155)	-	-	-
Transfer from Stage 2 to Stage 3	-	(559,850)	559,850	-	-
Transfer from Stage 3 to Stage 1	46	-	(46)	-	-
Transfer from Stage 3 to Stage 2	-	693	(693)	-	-
New financial assets originated or purchased	2,078,043	438,215	-	-	2,516,258
Changes to principal	(7,737)	-	(48)	-	(7,785)
Loss allowance as at September 30, 2019	1,413,779	250,858	4,989,358	-	6,654,175

	The Group				
	ECL staging				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit-impaired	Total
DUE FROM BANKS, REINSURANCE ASSET and OTHER ASSETS	**$000**	**$000**	**$000**	**$000**	**$000**
Loss allowance as at October 1, 2018	15,227	-	-	-	15,227
Transfers	-	-	-	-	-
New financial assets originated or purchased	243	-	-	-	243
Financial assets derecognised during the period	(15,227)	-	-	-	(15,227)
Loss allowance as at September 30, 2019	243	-	-	-	243

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

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

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

43. Financial Risk Management (Continued)

(a) Credit risk (continued)

Loss allowance (continued)

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

43. Financial Risk Management (Continued)

(a) Credit risk

Economic variable assumptions for exposure – securities

Macroeconomic variables used in the Group's ECL models for securities include, but are not limited to, Global Gross Domestic Product, Global Consumer Price Index and interest rates. The impact of these economic variables has been determined by performing statistical analysis to understand that a correlation exists between certain variables. The PDs and LGDs are impacted by long-term changes in the various data sets gathered from external rating agencies (Standard & Poor, Moody's) and the International Monetary Fund. Macroeconomic variable assumptions in the expected credit loss models include Global Gross Domestic Product 3.70 (2018- 3.71) and Global Consumer Price Index 3.29 (2018 – 3.31).

Economic variable assumptions for exposure – loans and advances

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

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

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43. Financial Risk Management (Continued)

(a) Credit risk

Sensitivity analysis
Set out below are the changes in ECL as at September 30, 2019 that would result from a reasonably possible change in the PDs and LGDs used by the group:

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

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

43. Financial Risk Management (Continued)

(b) Liquidity risk

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

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

(i) Oversight by relevant governance committees;

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

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

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

(v) Diversification of funding sources;

(vi) Maintenance of committed lines of credits; and

(vii) Monitoring of adherence to regulatory ratios.

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

The matching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group's liquidity exposure. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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

Notes to the Financial Statements

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities

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

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2019:						
Due to other banks	9,702,241	3,427,839	5,824,335	-	-	18,954,415
Customer deposits	341,199,017	8,351,357	19,793,485	3,564,544	-	372,908,403
Repurchase agreements	75,136,421	41,242,132	25,566,555	44,217,404	-	186,162,512
Obligations under securitisation arrangements	2,230,244	1,213,217	10,891,642	33,184,758	8,107,276	55,627,137
Other borrowed funds	420,479	958,593	13,664,525	19,273,550	7,287,880	41,605,027
Liabilities under annuity and insurance contracts	29,228,209	164,407	1,257,065	6,134,868	61,372,445	98,156,994
Other	12,177,456	-	-	-	-	12,177,456
Total financial liabilities (contractual maturity dates)	470,094,067	55,357,545	76,997,607	106,375,124	76,767,601	785,591,944
Total financial liabilities (expected maturity dates)	113,166,684	40,954,345	78,460,202	157,924,759	396,534,836	787,040,826
Total financial assets (expected maturity dates)	195,213,110	10,195,841	52,245,742	350,473,841	490,070,805	1,098,199,338

	The Group					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2018:						
Due to other banks	9,745,393	-	2,196,684	-	-	11,942,077
Customer deposits	284,740,308	33,366,917	27,139,070	11,897,145	-	357,143,440
Repurchase agreements	57,216,408	51,990,987	23,923,264	26,115,540	-	159,246,199
Obligations under securitisation arrangements	2,228,801	1,436,165	10,730,679	51,723,898	12,603,158	78,722,701
Other borrowed funds	1,006,648	2,606,141	23,605,716	12,378,757	1,547,339	41,144,601
Liabilities under annuity and insurance contracts	28,574,796	1,554,195	5,905,377	6,125,336	56,184,925	98,344,629
Other	14,523,684	-	-	-	-	14,523,684
Total financial liabilities (contractual maturity dates)	398,036,038	90,954,405	93,500,790	108,240,676	70,335,422	761,067,331
Total financial liabilities (expected maturity dates)	75,779,046	25,694,477	88,703,229	244,958,408	355,159,556	790,294,715
Total financial assets (expected maturity dates)	157,580,985	16,151,132	63,668,355	363,484,626	441,086,899	1,083,165,734

43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

	The Bank					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2019:						
Due to other banks	11,058,759	3,427,839	5,824,335	-	-	20,310,933
Customer deposits	331,722,521	5,996,631	9,996,843	2,014,507	-	349,730,501
Repurchase agreements	29,256,514	6,458,281	720,097	41,952,894	-	78,387,786
Obligations under securitisation arrangements	2,230,244	1,213,217	10,891,642	33,184,758	8,107,276	55,627,137
Other borrowed funds	276,687	246,436	2,482,685	9,099,654	5,554,292	17,659,754
Other	12,090,233	-	-	-	-	12,090,233
Total financial liabilities (contractual maturity dates)	386,634,958	17,342,404	29,915,601	86,251,812	13,661,569	533,806,344
Total financial liabilities (expected maturity dates)	40,671,815	15,219,740	31,344,511	144,613,780	334,032,047	565,881,893
Total financial assets (expected maturity dates)	179,053,019	5,629,144	39,752,165	271,982,356	293,721,177	790,137,861

	The Bank					
	Within 1 Month $'000	2 to 3 Months $'000	4 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at September 30, 2018:						
Due to other banks	10,550,866	143,330	4,224,951	-	-	14,919,147
Customer deposits	274,033,986	29,697,882	18,387,602	10,549,547	-	332,669,017
Repurchase agreements	19,939,289	2,213,658	11,934,570	26,115,541	-	60,203,058
Obligations under securitisation arrangements	2,228,801	1,436,165	10,730,679	51,723,898	12,603,158	78,722,701
Other borrowed funds	320,863	234,359	3,865,748	9,755,440	505,418	14,681,828
Other	8,656,895	-	-	-	-	8,656,895
Total financial liabilities (contractual maturity dates)	315,730,700	33,725,394	49,143,550	98,144,426	13,108,576	509,852,646
Total financial liabilities (expected maturity dates)	41,813,633	12,333,061	54,074,321	222,776,957	218,061,606	549,059,578
Total financial assets (expected maturity dates)	149,881,306	10,905,165	47,150,258	262,072,178	260,004,618	730,013,525

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

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43. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Cash flows of financial liabilities (continued)

Off-statement of financial position items

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

	The Group			
	No later than 1 year $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
At September 30, 2019				
Credit commitments	51,973,093	5,381,756	1,414,307	58,769,156
Guarantees, acceptances and other financial facilities	5,659,064	910,383	2,103,730	8,673,177
Operating lease commitments	26,399	234,835	255,139	516,373
Capital commitments	4,656,873	-	-	4,656,873
	62,315,429	6,526,974	3,773,176	72,615,579
At September 30, 2018				
Credit commitments	55,291,271	-	-	55,291,271
Guarantees, acceptances and other financial facilities	5,245,282	1,428,224	1,771,155	8,444,661
Operating lease commitments	135,427	643,639	186,117	965,183
Capital commitments	8,351,801	41,691	-	8,393,492
	69,023,781	2,113,554	1,957,272	73,094,607

	The Bank			
	No later than 1 year $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
At September 30, 2019				
Credit commitments	51,973,093	5,381,756	1,414,307	58,769,156
Guarantees, acceptances and other financial facilities	3,751,842	910,384	2,103,730	6,765,956
Operating lease commitments	26,399	234,835	255,139	516,373
Capital commitments	4,659,513	-	-	4,659,513
	60,410,847	6,526,975	3,773,176	70,710,998
At September 30, 2018				
Credit commitments	54,956,133	-	-	54,956,133
Guarantees, acceptances and other financial facilities	3,032,730	1,357,696	1,771,155	6,161,581
Operating lease commitments	116,526	601,947	186,117	904,590
Capital commitments	8,332,899	-	-	8,332,899
	66,438,288	1,959,643	1,957,272	70,355,203

Capital commitments are in relation to approved expenditures for property, plant, equipment and computer software that were unused as at the end of the respective financial years either because they relate to work in progress or are awaiting the start of the project. Of the total capital commitments, planned expenditure valuing $51,464,000 (2018 – $3,223,517,000) for the Group has already been contracted.

43. Financial Risk Management (Continued)

(c) Market risk

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

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

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

There has been no change to the manner in which the Group manages and measures this risk.

(i) Currency risk

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

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

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

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(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) *Currency risk (continued)*

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

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at the date of the statement of financial position.

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

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Group					
	$	US$	GBP	CAN$	Other	Total
September 30, 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Banks	50,330,644	19,557,307	1,776,204	351,970	13,393	72,029,518
Due from other banks	1,817,309	27,332,942	9,671,128	1,454,828	2,700,931	42,977,138
Reverse repurchase agreements	3,552,468	254,709	-	-	-	3,807,177
Loans and advances, net of provision for credit losses	192,501,154	83,909,748	592,056	-	-	277,002,958
Investment securities	233,978,259	124,894,678	787,449	27,304	0	359,687,690
Derivative financial instruments	-	233,329	-	-	-	233,329
Other	5,780,919	2,359,971	83,393	2,173	39,747	8,266,203
Total financial assets	487,960,753	258,542,684	12,910,230	1,836,275	2,754,071	764,004,013
Liabilities						
Due to other banks	7,350,774	4,325,053	89,966	49,407	-	11,815,200
Customer deposits	192,905,028	140,891,736	11,902,688	2,035,902	1,899,279	349,634,633
Repurchase agreements	54,596,761	98,154,134	133,731	-	-	152,884,626
Obligations under securitisation arrangements	-	59,519,651	-	-	-	59,519,651
Other borrowed funds	23,962,310	12,504,526	-	-	-	36,466,836
Liabilities under annuity and insurance contracts	37,342,865	750,142	-	-	-	38,093,007
Derivative financial instruments	-	233,329	-	-	25,673	259,002
Other	8,003,878	4,200,527	181,380	72,158	212,189	12,670,132
Total financial liabilities	324,161,616	320,579,098	12,307,765	2,157,467	2,137,141	661,343,087
Net position on- statement of financial position	163,799,137	(62,036,414)	602,465	(321,192)	616,930	102,660,926
Guarantees, acceptances and other financial facilities	3,221,574	5,097,038	1,048	-	125,001	8,444,661
Credit commitments	36,349,807	18,941,464	-	-	-	55,291,271

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Bank					
	J$	US$	GBP	CAN$	Other	Total
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Bank	35,971,935	21,166,527	1,685,701	401,063	12,341	59,237,567
Due from other banks	6,886,021	32,395,539	7,147,841	2,097,812	2,314,426	50,841,639
Reverse repurchase agreements	-	223,923	-	-	-	223,923
Loans and advances, net of provision for credit losses	213,061,929	90,950,173	-	-	-	304,012,102
Investment Securities	70,085,821	91,959,303	831,618	-	157,868	163,034,610
Other	3,686,984	2,404,220	2,662	215	-	6,094,081
Total financial assets	329,692,690	239,099,685	9,667,823	2,499,090	2,484,635	583,443,922
Liabilities						
Due to other banks	1,241,290	17,194,477	94,930	50,860	22,997	18,604,554
Customer deposits	219,130,355	117,364,370	9,628,508	2,067,804	1,289,021	349,480,058
Repurchase agreements	26,318,321	48,642,211	-	-	-	74,960,532
Obligations under securitisation arrangements	-	48,675,581	-	-	-	48,675,581
Other borrowed funds	10,330,990	2,224,024	-	-	-	12,555,014
Other	10,289,368	1,769,274	10,652	7,286	13,652	12,090,232
Total financial liabilities	267,310,324	235,869,937	9,734,090	2,125,950	1,325,670	516,365,549
Net position on- statement of financial position	62,382,366	3,229,748	(66,268)	373,140	1,158,965	67,077,951
Guarantees, acceptances and other financial facilities	3,419,591	3,227,914	989	-	117,461	6,765,955
Credit commitments	43,547,393	15,221,763	-	-	-	58,769,156

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

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

	The Bank					
	J$	**US$**	**GBP**	**CAN$**	**Other**	**Total**
September 30, 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash in hand and balances at Central Bank	49,459,655	19,557,307	1,775,789	351,970	13,393	71,158,114
Due from other banks	338,192	26,288,221	8,449,249	1,383,387	2,156,563	38,615,612
Reverse repurchase agreements	-	1,532,332	-	-	-	1,532,332
Loans and advances, net of provision for credit losses	190,120,333	81,002,699	-	-	-	271,123,032
Investment securities	115,832,574	27,119,724	-	-	-	142,952,298
Other	5,283,528	1,837,131	-	-	231	7,120,890
Total financial assets	361,034,282	157,337,414	10,225,038	1,735,357	2,170,187	532,502,278
Liabilities						
Due to other banks	7,331,748	6,803,558	467,395	71,593	12,805	14,687,099
Customer deposits	190,423,994	128,209,154	10,283,323	2,019,141	1,389,558	332,325,170
Repurchase agreements	21,743,208	34,625,466	-	-	-	56,368,674
Obligations under securitisation arrangements	-	59,519,651	-	-	-	59,519,651
Other borrowed funds	9,467,780	2,142,824	-	-	-	11,610,604
Derivative financial instruments	-	-	-	-	25,673	25,673
Other	6,589,317	1,811,851	22,141	1,858	22,536	8,447,703
Total financial liabilities	235,556,047	233,112,504	10,772,859	2,092,592	1,450,572	482,984,574
Net position on- statement of financial position	125,478,235	(75,775,090)	(547,821)	(357,235)	719,615	49,517,704
Guarantees, acceptances and other financial facilities	3,151,046	2,884,486	1,048	-	125,001	6,161,581
Credit commitments	36,014,669	18,941,464	-	-	-	54,956,133

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September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

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

	2019			2018		
	% Change in Currency Rate	Effect on Profit Before Tax		% Change in Currency Rate	Effect on Profit Before Tax	
		The Group	The Bank		The Group	The Bank
		$'000	$'000		$'000	$'000
Currency:						
USD	Appreciation 2%	(828,027)	(64,595)	Appreciation 2%	1,240,728	1,515,502
	Depreciation 4%	1,656,054	129,190	Depreciation 4%	(2,481,457)	(3,031,004)
GBP	Appreciation 2%	882	1,112	Appreciation 2%	(12,049)	10,956
	Depreciation 4%	(1,764)	(2,224)	Depreciation 4%	24,099	(21,913)
CAN	Appreciation 2%	(6,770)	(7,463)	Appreciation 2%	6,424	7,145
	Depreciation 4%	13,541	14,925	Depreciation 4%	(12,848)	(14,289)

(ii) Interest rate risk

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

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

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

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

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

	The Group						
	Within 1 Month	2 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
September 30, 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Banks	10,010,223	-	-	-	-	50,177,286	60,187,509
Due from other banks	47,787,531	-	4,364,574	-	-	10,149,160	62,301,265
Reverse repurchase agreements	2,170,360	700,000	50,000	-	-	5,213	2,925,572
Loans and advances, net of provision for credit losses	8,865,217	12,686,841	107,156,994	84,788,984	98,403,751	1,013,140	312,914,928
Investment securities	43,733,144	20,448,960	33,721,250	75,494,355	189,808,955	10,969,880	374,176,544
Derivative financial instruments	-	-	-	-	-	239,279	239,279
Other	-	-	-	-	-	7,910,701	7,910,701
Total financial assets	112,566,475	33,835,801	145,292,818	160,283,339	288,212,706	80,464,659	820,655,798
Liabilities							
Due to other banks	6,290,052	7,619,266	-	-	-	3,358,257	17,267,575
Customer deposits	331,882,660	9,535,072	19,530,084	3,438,162	-	486,759	364,872,737
Repurchase agreements	59,805,648	50,075,371	22,643,341	41,508,658	-	924,572	174,957,590
Obligations under securitisation arrangements	1,634,716	1,117,850	12,498,311	25,293,550	7,565,430	565,723	48,675,581
Other borrowed funds	734,957	10,571,893	3,097,618	7,835,313	12,129,105	307,587	34,676,473
Liabilities under annuity and insurance contracts	29,207,164	-	-	-	-	(430,469)	28,776,695
Derivative financial instruments	-	-	-	-	-	239,279	239,279
Other	-	-	-	-	-	21,788,996	21,788,996
Total financial liabilities	429,555,197	78,919,452	57,769,354	78,075,683	19,694,535	27,240,704	691,254,926
On-statement of financial position interest sensitivity gap	(316,988,722)	(45,083,651)	87,523,464	82,207,656	268,518,171	53,223,955	129,400,873
Cumulative interest sensitivity gap	(316,988,722)	(362,072,373)	(274,548,909)	(192,341,253)	76,176,918	129,400,873	

Notes to the Financial Statements

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Group						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Banks	19,990,000	-	-	-	-	52,039,518	72,029,518
Due from other banks	23,526,148	214,827	2,029,760	-	-	17,206,403	42,977,138
Reverse repurchase agreements	2,851,824	633,017	318,800	-	-	3,536	3,807,177
Loans and advances, net of provision for credit losses	35,213,163	4,821,564	15,769,148	115,619,148	101,396,739	4,183,196	277,002,958
Investment securities	40,126,606	21,765,429	14,436,812	97,987,234	175,367,849	10,003,760	359,687,690
Derivative financial instruments	-	-	-	-	-	233,329	233,329
Other	-	-	-	-	-	8,266,203	8,266,203
Total financial assets	121,707,741	27,434,837	32,554,520	213,606,382	276,755,664	91,944,869	764,004,013
Liabilities							
Due to other banks	5,785,613	10,805	2,010,827	-	-	4,007,955	11,815,200
Customer deposits	232,223,780	21,776,083	17,030,885	1,437,580	-	77,166,305	349,634,633
Repurchase agreements	55,974,542	50,166,193	22,255,954	23,801,290	-	686,647	152,884,626
Obligations under securitisation arrangements	2,658,234	-	8,111,837	39,735,296	8,343,430	670,854	59,519,651
Other borrowed funds	766,734	2,139,380	21,030,929	3,501,023	8,810,163	218,607	36,466,836
Liabilities under annuity and insurance contracts	26,864,171	154,944	772,229	-	-	10,301,663	38,093,007
Derivative financial instruments	-	-	-	-	-	259,002	259,002
Other	-	-	-	-	-	12,670,132	12,670,132
Total financial liabilities	324,273,074	74,247,405	71,212,661	68,475,189	17,153,593	105,981,165	661,343,087
On-statement of financial position interest sensitivity gap	(202,565,333)	(46,812,568)	(38,658,141)	145,131,193	259,610,995	(14,045,220)	102,660,926
Cumulative interest sensitivity gap	(202,565,333)	(249,377,901)	(288,036,042)	(142,904,849)	116,706,146	102,660,926	

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

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September 30, 2019

(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	The Bank						
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
September 30, 2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets							
Cash in hand and balances at Central Bank	19,990,000	-	-	-	-	51,168,114	71,158,114
Due from other banks	22,190,963	-	-	-	-	16,424,649	38,615,612
Reverse repurchase agreements	1,532,134	-	-	-	-	198	1,532,332
Loans and advances, net of provision for credit losses	35,039,003	3,376,066	14,692,847	113,231,048	100,634,771	4,149,297	271,123,032
Investment securities	15,089,590	2,718,247	7,608,243	38,929,272	76,415,773	2,191,173	142,952,298
Other	-	-	-	-	-	7,120,890	7,120,890
Total financial assets	93,841,690	6,094,313	22,301,090	152,160,320	177,050,544	81,054,321	532,502,278
Liabilities							
Due to other banks	8,668,317	-	2,010,827	-	-	4,007,955	14,687,099
Customer deposits	226,562,493	18,276,288	10,275,771	166,752	-	77,043,866	332,325,170
Repurchase agreements	19,822,965	1,947,227	10,576,534	23,727,770	-	294,178	56,368,674
Obligations under securitisation arrangements	2,658,234	-	8,111,837	39,735,296	8,343,430	670,854	59,519,651
Other borrowed funds	90,246	3,742	2,020,816	1,872,865	7,505,418	117,517	11,610,604
Derivative financial instruments	-	-	-	-	-	25,673	25,673
Other	-	-	-	-	-	8,447,703	8,447,703
Total financial liabilities	257,802,255	20,227,257	32,995,785	65,502,683	15,848,848	90,607,746	482,984,574
On-statement of financial position interest sensitivity gap	(163,960,565)	(14,132,944)	(10,694,695)	86,657,637	161,201,696	(9,553,425)	49,517,704
Cumulative interest sensitivity gap	(163,960,565)	(178,093,509)	(188,788,204)	(102,130,567)	59,071,129	49,517,704	

(expressed in Jamaican dollars unless otherwise indicated)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

	The Group				The Bank			
	J$	**US$**	**CAN$**	**GBP**	**J$**	**US$**	**CAN$**	**GBP**
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**
September 30, 2019								
Assets								
Balances at Central Banks	0.50		-	-	0.50		-	-
Due from other banks	-	1.16	-	-		1.16	-	-
Reverse repurchase agreements	1.76	2.50	-	-		2.63	-	-
Loans and advances	13.26	8.18	-	-	13.12	8.90	-	-
Investment securities	5.05	5.41	-	2.01	4.21	3.39	-	2.01
Liabilities								
Due to other banks	2.07	4.59	-	-	2.07	4.59	-	-
Customer deposits	1.02	0.72	0.09	0.12	1.02	0.72	0.09	0.12
Repurchase agreements	1.26	4.13	-	-	1.69	4.99	-	-
Obligations under securitisation arrangements	-	6.00	-	-	-	6.00	-	-
Other borrowed funds	5.31	4.55	-	-	5.45	4.48	-	-
September 30, 2018								
Assets								
Balances at Central Banks	2.00	-	-	-	2.00	-	-	-
Due from other banks	3.00	1.55	1.95	0.51	3.00	1.55	1.95	0.51
Investment securities at fair value through profit or loss	6.51	7.00	-	-	-	-	-	-
Reverse repurchase agreements	1.57	1.94	-	-	2.07	2.17	-	-
Loans and advances	11.85	6.66	-	-	13.81	8.33	-	-
Investment securities classified as available-for-sale and loans and receivables	5.51	5.47	-	-	4.50	5.25	-	-
Liabilities								
Due to other banks	2.00	8.56	-	0.66	2.00	8.56	-	-
Customer deposits	1.74	1.35	0.15	0.11	1.74	1.35	0.15	0.11
Repurchase agreements	2.22	4.93	-	-	2.21	3.96	-	-
Obligations under securitisation arrangements	-	6.38	-	-	-	6.38	-	-
Other borrowed funds	6.87	3.96	-	-	6.87	3.96	-	-

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity

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

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

	The Group	
	Effect on Profit before Tax	Effect on Other Components of Equity
	2019 $'000	2019 $'000
Change in basis points:		
Decrease - JMD -100 and USD -100	(24,413)	12,770,252
Increase - JMD +100 and USD +100	35,325	(11,179,927)
	2018 $'000	**2018 $'000**
Change in basis points:		
Decrease - JMD -100 and USD -50	(379,169)	8,722,913
Increase - JMD +100 and USD +100	379,169	(8,786,020)

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

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate sensitivity (continued)

	The Bank	
	Effect on Profit before Tax	Effect on Other Components of Equity
	2018	2018
	$'000	$'000
Change in basis points:		
Decrease - JMD -100 and USD -50	(111,143)	4,297,552
Increase - JMD +100 and USD +100	111,143	(3,851,866)

43. Financial Risk Management (Continued)

(c) Market risk (continued)

(iii) Other price risk

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

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

Sensitivity to changes in price of equity securities

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

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

	The Group			
	Effect on Profit before Tax	Effect on Equity	Effect on Profit before Tax	Effect on Equity
	2019 $'000	2019 $'000	2018 $'000	2018 $'000
Percentage change in share price				
10% decrease	(703,316)	-	(83,628)	(428,202)
10% increase	703,316	-	83,628	428,202

	The Bank			
	Effect on Profit before Tax	Effect on Equity	Effect on Profit before tax	Effect on Equity
	2019 $'000	2019 $'000	2018 $'000	2018 $'000
Percentage change in share price				
10% decrease	(17,201)	-	-	(11,343)
10% increase	17,201	-	-	11,343

43. Financial Risk Management (Continued)

(d) Derivative financial instruments

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

(e) Insurance risk

The Group issues contracts that transfer insurance risk or financial risk or both.

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

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

Life insurance risk

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

Frequency and severity of claims

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

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

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

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

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

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured.

	Total Benefits Assured - Individual			
	2019		2018	
	$'000 Contracts with Investment Options	$'000 Contracts without Investment Options	$'000 Contracts with Investment Options	$'000 Contracts without Investment Options
Benefits assured per life assured ($'000)				
0 - 999 / 0 – 1,000	14,755,663	3,187,621	14,749,853	3,298,115
1,000 - 5,000 / 1,000 – 2,000	23,094,171	42,159,916	5,012,238	17,786,213
5,001 - 10,000 / 2,000 – 5,000	7,792,824	-	10,412,729	15,912,203
10,001 - 15,000 / 5,000 – 10,000	1,979,221	-	7,690,689	2,415,000
15,001 - 20,000 / Over 10,000	1,575,380	-	7,191,512	-
Over 20,000	3,391,490	-	-	-
	52,588,749	45,347,537	45,057,021	39,411,531

	Total Benefits Assured - Group			
	2019		2018	
	$'000 Before Re-insurance	$'000 After Re-insurance	$'000 Before Re-insurance	$'000 After Re-insurance
Benefits assured per life assured ($'000)				
0 - 999 / 0 – 1,000	23,367,225	23,365,659	23,578,610	23,577,701
1,000 - 5,000 / 1,000 – 2,000	36,774,366	36,629,861	18,081,511	18,074,876
5,001 - 10,000 / 2,000 – 5,000	19,292,465	15,496,302	20,288,071	20,155,193
10,001 - 15,000 / 5,000 – 10,000	8,628,746	3,943,855	18,191,190	14,803,220
15,001 - 20,000 / Over 10,000	5,242,430	2,072,128	22,033,526	7,555,369
Over 20,000	8,665,009	2,345,168	-	-
	101,970,241	83,852,973	102,172,908	84,166,359

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

- The premium ceded during the year in respect of catastrophe re-insurance cover amounted to $52,512,000 (2018– $41,497,000). Premium income recognised in the income statement is shown net of these amounts.
- Policyholders' benefits recovered from reinsurers during the year under these contracts amounted to $48,696,000 (2018 – $15,509,000).
- At September 30, 2019, premiums payable under re-insurance contracts amounted to $6,190,000 (2018 – $3,665,000).

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

The following table for annuity contracts illustrates the concentration of risk in relation to the amount payable as if the annuity were in payment at the year end:

	Total Annuities Payable	
	2019	**2018**
	$'000	**$'000**
Annuity payable per annum per annuitant ($'000)		
0 - 200 / 0 -100	129,947	57,331
200 - 300 / 100 – 300	73,836	139,786
300 - 400 / 300 – 500	60,332	130,192
400 - 500 / 500 – 1,000	70,504	252,782
Over 500 / 1,000	1,152,874	847,876
	1,487,493	1,427,967

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

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

Sources of uncertainty in the estimation of future benefit payments and premium payments

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

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

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Life insurance risk (continued)

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

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

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

Reinsurance risk
Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. The Group limits the probable loss in the event of individual deaths and any single catastrophic accident occurrence by reinsuring its insurance risk above certain limits with other insurers. Reinsurance ceded does not discharge the Group's liability as the primary insurer. The Group manages reinsurance risk by selecting reinsurers with high credit ratings and monitoring these on an ongoing basis. The current reinsurer is Swiss Re (registered in Canada) whose financial strength rating from Standard & Poor's is AA- (at October 24, 2018) and from AM Best A+ (at December 13, 2018).

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

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk

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

Underwriting strategy

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

Reinsurance strategy

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

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)

Motor insurance

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

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

Property insurance

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

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

Liability insurance

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

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

During the year, the Group disposed of its shares in Advantage General Insurance Company Limited.

43. Financial Risk Management (Continued)

(e) Insurance risk (continued)

Property and casualty insurance risk (continued)

Risk exposure and concentrations of risk

The following table shows the Group's exposure to property and casualty insurance risk based on the carrying value of insurance provisions as at September 30, 2018, (the subsidiary that offered general insurance was disposed of in 2019) per major category of business:

	2018				
	Liability	Property	Motor	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross	11,696	10,737	4,060,919	-	4,083,352
Net of proportional reinsurance	11,696	4,925	4,056,076	-	4,072,697

Claims development

Claims development information is disclosed in order to illustrate the property and casualty insurance risk inherent in the Group. The upper section of the table shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower section of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims. Table shown below is for 2018, subsidiary that offered general insurance was disposed of in 2019:

	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of cumulative claims at end of financial year	2,077,084	1,951,568	2,170,646	2,208,371	2,336,795	1,899,066	2,133,681	1,847,838	
One year later	2,023,825	2,018,656	2,316,690	2,145,811	2,301,651	2,430,469	2,470,346		
Two years later	2,404,734	2,211,216	2,400,174	2,377,284	2,393,967	2,491,886			
Three years later	2,542,644	2,382,546	2,622,796	2,429,919	2,289,160				
Four years later	2,652,369	2,576,956	2,726,883	2,353,112					
Five years later	2,752,313	2,712,647	2,705,445						
Six years later	2,818,725	2,690,019							
Seven years later	2,783,836								
Estimate of cumulative claims	2,783,836	2,690,019	2,705,445	2,353,112	2,289,160	2,491,886	2,470,346	1,847,838	19,631,642
Cumulative payments to date	2,686,049	2,529,746	2,484,329	2,080,446	1,905,760	1,991,872	1,779,050	463,930	15,921,182
Net outstanding claims liability	97,787	160,273	221,116	272,666	383,400	500,014	691,296	1,383,908	3,710,460

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

Notes to the Financial Statements

43. Financial Risk Management (Continued)

(f) Capital management

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

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

All of the Group's significant subsidiaries and associates are individually regulated by the relevant regulator in their jurisdiction or other regulators. The regulatory requirements to which the subsidiaries are subject include minimum capital and liquidity requirements which may limit their ability to extract capital or funds for other uses. The Group's subsidiaries and associates are also subject to statutory requirements to restrict distributions of capital and generally to maintain solvency. In most cases, the regulatory restrictions are more onerous than the statutory restrictions. Certain Group subsidiaries also raise finance using their financial assets as collateral. Encumbered assets are not available for transfer around the Group. The assets typically affected are disclosed in Note 22.

(i) The Bank

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

The Central Bank requires the Bank to:

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

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

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

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

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

The Bank met all the regulatory capital requirements as at September 30, 2019.

43. Financial Risk Management (Continued)

(f) Capital management (continued)

(ii) NCB Insurance Company Limited (NBCIC)

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

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

The relevant capital requirement is the Minimum Continuing Capital Surplus Ratio (MCCSR) determined in accordance with the FSC regulations. This ratio is calculated by the actuary and reviewed by executive management, the Audit Committee and the Board of Directors. This measure is a risk-based formula that compares available capital and surplus to a minimum requirement set by the FSC in regard to the asset and liability profile of the company. The company met all FSC regulatory capital requirements as at September 30, 2019.

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

Dynamic capital adequacy testing (DCAT)

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

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

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

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43. Financial Risk Management (Continued)

(f) Capital management (continued)

(iii) NCB Capital Markets Limited

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

The regulatory capital of the company is divided into two tiers:
(i) Tier 1 capital: share capital, retained earnings and reserves created from appropriations of retained earnings.
(ii) Tier 2 capital: qualifying subordinated debt or loan capital, qualifying capital reserves and unrealised gains derived from the fair valuation of equity instruments classified as FVOCI.

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

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

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

NCBCM met all the FSC regulatory capital requirements as at September 30, 2019.

44. Fair Values of Financial Instruments

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

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

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

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

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

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

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

Notes to the Financial Statements

44. Fair Values of Financial Instruments (Continued)

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

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

44. Fair Values of Financial Instruments (Continued)

	The Group			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At September 30, 2018				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica guaranteed corporate bonds	-	209,486,465	-	209,486,465
Other corporate bonds	-	23,142,087	2,377,968	25,520,055
Foreign government debt securities	-	11,834,489	-	11,834,489
Quoted equity securities	2,660,664	-	-	2,660,664
Unquoted equity securities	-	-	689,427	689,427
Unit trust investments	-	592,323	-	592,323
	2,660,664	245,055,364	3,067,395	250,783,423
Investment securities at fair value through profit or loss				
Government of Jamaica debt securities	-	13,191	-	13,191
Other corporate bonds	-	1,610,197	-	1,610,197
Foreign government debt securities	-	258,954	-	258,954
Quoted equity securities	1,258,201	-	-	1,258,201
Other securities	-	545,025	521	545,546
	1,258,201	2,427,367	521	3,686,089
Derivative financial instruments	-	233,329	-	233,329
	3,918,865	247,716,060	3,067,916	254,702,841
Financial liabilities				
Derivative financial instruments	-	259,002	-	259,002
Liabilities under annuity and insurance contracts	-	-	38,093,007	38,093,007
	-	259,002	38,093,007	38,352,009

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

	The Group	
	2019 $'000	2018 $'000
At start of year	3,067,916	2,133,691
Acquisitions	31,259,693	881,265
Transfer in on adoption of IFRS 9	33,002,517	-
Sales/Maturities	(3,056,947)	-
Fair value gains	686,570	52,960
At end of year	64,959,749	3,067,916

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

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44. Fair Values of Financial Instruments (Continued)

	The Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At September 30, 2019				
Financial assets				
Investment securities classified as FVOCI				
Government of Jamaica debt securities	-	114,257,955	-	114,257,955
Other government securities	-	4,861,407	-	4,861,407
Corporate debt securities	-	4,741,846	8,789,709	13,531,555
	-	123,861,208	8,789,709	132,650,917
Investment securities at fair value through profit or loss				
Corporate debt securities	-	-	310,710	310,710
Quoted & unquoted equity securities	153,758	-	18,255	172,013
	153,758	-	328,965	482,723
	153,758	123,861,208	9,118,674	133,133,640
September 30, 2018				
Financial assets				
Investment securities classified as available-for-sale				
Government of Jamaica debt securities	-	99,297,776	-	99,297,776
Government of Jamaica guaranteed corporate bonds	-	1,475,619	-	1,475,619
Other corporate bonds	-	6,242,966	-	6,242,966
Foreign government debt securities	-	4,462,993	-	4,462,993
Quoted equity securities	90,167	-	-	90,167
Unquoted equity securities	-	-	18,255	18,255
	90,167	111,479,354	18,255	111,587,776

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

	The Bank
	$'000
At start of year	18,255
Acquisitions	5,919,223
Transfer in on adoption of IFRS 9	3,181,196
At end of year	9,118,674

44. Fair Values of Financial Instruments (Continued)

Sensitivity analysis

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

Description	Unobservable input	Change in basis points	Change in fair value $'000
Other corporate bonds	Risk premium	JMD -100 and USD -50	3,603
		JMD +100 and USD +50	(3,418)

Description	Unobservable input	Change in basis points	Change in fair value $'000
Other corporate bonds	Risk premium	JMD -100 and USD -50	(3,149)
		JMD +100 and USD +100	5,133

The Group's level 3 unquoted equity securities would increase/decrease in value by $163,191,000 (2018 - $83,986,000) should there be a 15% change in the price of these securities.

The carrying value (excluding accrued interest) (Note 20) and fair value of investment securities classified as loans and receivables (amortised cost 2018), are as follows:

	The Group		The Bank	
	Carrying Value $'000	Fair Value $'000	Carrying Value $'000	Fair Value $'000
At September 30, 2019	30,664,755	30,954,074	28,140,033	28,179,074
At September 30, 2018	100,951,655	110,723,567	29,281,771	29,343,887

Similar to debt securities classified as FVOCI (2018 - available-for-sale), the above fair value measurements fall within Level 2 of the fair value hierarchy as indicative prices or yields of these instruments are obtained from regular, publicly available quotes by reputable pricing services, dealers and brokers, such as Bloomberg and Oppenheimer.

45. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At September 30, 2019, the Group had financial assets under administration of approximately $138,832,835,000 (2018 – $151,867,021,000).

46. Dividends

The following dividends were paid during the year:

- $0.66 per ordinary stock unit was paid in December 2018
- $0.90 per ordinary stock unit was paid in February 2019
- $0.90 per ordinary stock unit was paid in May 2019
- $0.95 per ordinary stock unit was paid in August 2019

On November 06, 2019, the Board declared a last interim dividend in respect of 2019 of $4.16 per ordinary stock unit. The financial statements for the year ended September 30, 2019 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending September 30, 2020.

47. Litigation and Contingent Liabilities

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

In respect of claims asserted against the Group for which, according to the principles outlined above, no provision has been made, management is of the opinion that such claims are without merit and can be successfully defended.

Significant matters are as follows, all relating to NCB Jamaica Limited:

(a) Suit has been filed by the NCB Staff Association against the Bank seeking various declarations regarding the Bank's profit sharing scheme, in particular as it relates to the financial year ended September 30, 2002. The Association has not quantified the claim. In 2018, the Supreme Court decided in favor of the NCB Staff Association. The Bank filed an appeal against the judgment. The appeal was heard for 3 days in June 2019 at the end of which the Court of Appeal reserved its judgment. Provision for the claim has been made in the financial statements.

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

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

47. Litigation and Contingent Liabilities (Continued)

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

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

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

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48. Reconciliation of Liabilities arising from Financial Activities

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

	The Group		
Liabilities	Other borrowed funds $'000	Obligation under securitisation arrangements $'000	Total $'000
At October 1, 2017	31,245,302	66,743,350	97,988,652
Cash movements -			
Drawdowns	26,107,168	-	26,107,168
Repayment - principal	(21,075,615)	(8,605,600)	(29,681,215)
Non-cash movements -			
Amortisation of upfront fees	3,261	228,978	232,239
Foreign exchange adjustments	(271,994)	700,599	428,605
Interest payable	410,538	(74,661)	335,877
At October 1, 2018	36,418,660	58,992,666	95,411,326
Cash movements -			
Drawdowns	19,014,587	-	19,250,179
Repayment - principal	(20,924,238)	(8,798,148)	(29,722,386)
Non-cash movements -			
Amortisation of upfront fees	26,532	157,227	178,871
Foreign exchange adjustments	30,308	(1,940,791)	(1,872,317)
Interest payable	88,980	(105,131)	(285,021)
At September 30, 2019	34,654,829	48,305,823	82,960,652

	The Bank		
Liabilities	Other borrowed funds $'000	Obligation under securitisation arrangements $'000	Total $'000
At October 1, 2017	3,849,384	66,743,350	70,592,734
Cash movements -			
Drawdowns	8,649,986	-	8,649,986
Repayment - principal	(943,999)	(8,605,600)	(9,549,599)
Non-cash movements -			
Amortisation of upfront fees	-	228,978	228,978
Foreign exchange adjustments	5,471	700,599	706,070
Interest payable	1,585	(74,661)	(73,076)
At October 1, 2018	11,562,427	58,992,666	70,555,093
Cash movements -			
Drawdowns	3,849,302	-	3,849,302
Repayment - principal	(3,030,180)	(8,798,148)	(11,850,711)
Non-cash movements -			
Amortisation of upfront fees	26,532	157,227	178,871
Foreign exchange adjustments	125,206	(1,940,791)	(1,787,808)
Interest payable	83	(105,131)	(105,554)
At September 30, 2019	12,533,370	48,305,823	60,839,193

49. Disposal of subsidiary

Advantage General Insurance Company Limited

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

(a) Income statement

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

(b) Statement of financial position

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

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49. Disposal of subsidiary (continued)

Advantage General Insurance Company Limited (continued)

(c) Gain on Disposal

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

(b) Purchase consideration - cash inflow

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

50. Changes in Accounting Policies

(a) Impact on financial statements

The Group has adopted IFRS 9 for the financial year ending 30 September 2019 which resulted in a change in the Group's accounting policies. IFRS 9 was generally adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the balance sheet at 30 September 2018, but are recognised in the opening balance sheet on 1 October 2018.

The following table shows the adjustment recognised for each individual line item for the consolidated and company statement of financial position.

Consolidated Statement of Financial Position

	September 30, 2018 as originally presented	Transition adjustment-IFRS 9	As at October 1, 2018
	$'000	$'000	$'000
ASSETS			
Cash in hand and balances and bank at Central Banks	72,029,518	-	72,029,518
Due from banks	41,113,771	-	41,113,771
Derivative financial instruments	233,329	(233,329)	-
Investment securities at fair value through profit or loss	2,540,013	14,835,770	17,375,783
Reverse repurchase agreements	3,807,177	-	3,807,177
Loans and advances, net of provision for credit losses	277,002,958	(266,038)	276,736,920
Investment securities	182,100,740	(182,100,740)	-
Investment securities at FVOCI and amortised cost	-	168,080,707	168,080,707
Pledged assets	176,910,304	-	176,910,304
Investment in associates	5,738,172	-	5,738,172
Investment properties	839,106	-	839,106
Intangible assets	7,439,269	-	7,439,269
Property, plant and equipment	11,192,609	-	11,192,609
Deferred income tax assets	3,144,743	-	3,144,743
Income tax recoverable	1,547,136	-	1,547,136
Customers' liability – letters of credit and undertaking	2,305,130	-	2,305,130
Other assets	10,216,255	-	10,216,255
	798,160,230	316,370	798,476,600

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50. Changes in Accounting Policies (Continued)

Consolidated Statement of Financial Position (continued)

	September 30, 2018 as originally presented	Transition adjustment - IFRS 9	As at October 1, 2018
	$'000	$'000	$'000
STOCKHOLDERS' EQUITY AND LIABILITIES:			
LIABILITIES			
Due to banks	11,815,200	-	11,815,200
Customer deposits	349,634,633	-	349,634,633
Repurchase agreements	152,884,626	-	152,884,626
Obligations under securitisation arrangements	58,992,666	-	58,992,666
Derivative financial instruments	259,002	(259,002)	-
Other borrowed funds	36,418,660	-	36,418,660
Deferred income tax liabilities	910,710	-	910,710
Liabilities under annuity and insurance contracts	38,093,007	-	38,093,007
Post-employment benefit obligations	5,502,973	-	5,502,973
Liability – letters of credit and undertaking	2,305,130	-	2,305,130
Other liabilities	17,725,063	-	17,725,063
	674,541,670	**(259,002)**	**674,282,668**
SHAREHOLDERS EQUITY			
Share capital	6,465,731	-	6,465,731
Fair value and capital reserves	3,664,948	2,959,625	6,624,573
Loan loss reserve	3,470,490	(245,691)	3,224,799
Banking reserve fund	6,598,442	-	6,598,442
Retained earnings reserve	39,250,000	-	39,250,000
Retained earnings	64,168,949	(2,138,562)	62,030,387
Total stockholders' equity	123,618,560	575,372	124,193,932
Total stockholders' equity and liabilities	**798,160,230**	**316,370**	**798,476,600**

50. Changes in Accounting Policies (Continued)

(b) Reconciliation of financial assets balances from IAS 39 to IFRS 9

The following tables reconcile the carrying amounts of financial investments, from their previous measurement category in accordance with IAS 39 as of September 30, 2018 to their new measurement categories upon transition to IFRS 9 as at October 1, 2018.

	The Group			
	IAS 39 carrying amount September 30, 2018 $'000	Reclassifi- cations $'000	Remeasure- ments $'000	IFRS 9 carrying amount October 1, 2018 $'000
FINANCIAL ASSETS AT AMORTISED COST:				
Debt securities				
Opening balance under IAS 39	100,951,655	-	-	100,951,655
Subtraction to FVOCI- (IFRS 9)	-	(34,367,072)	-	(34,367,072)
Subtraction to FVPL – (IFRS 9)	-	(1,598,216)	-	(1,598,216)
Re-measurement: ECL allowance	-	-	692,128	692,128
Closing balance under IFRS 9	100,951,655	(35,965,288)	692,128	65,678,495
Interest receivable	474,772	(179,114)	-	295,658
Total debt securities	101,426,427	(36,144,402)	692,128	65,974,153
Loans and advances				
Opening balance under IAS 39	277,002,958	-	-	277,002,958
Re-measurement: ECL allowance	-	-	(266,038)	(266,038)
Closing balance under IFRS 9	277,002,958	-	(266,038)	276,736,920
Reverse repurchase agreements				
Opening balance under IAS 39	3,803,642	-	-	3,803,642
Re-measurement: ECL allowance	-	-	(581)	(581)
Closing balance under IFRS 9	3,803,642	-	(581)	3,803,061
Interest receivable	3,535	-	-	3,535
Total reverse repurchase agreement	3,807,177	-	(581)	3,806,596
Due from banks				
Opening balance under IAS 39	41,113,771	-	-	41,113,771
Re-measurement: ECL allowance	-	-	(304)	(304)
Closing balance under IFRS 9	41,113,771	-	(304)	41,113,467
Total financial assets measured at amortised cost	**423,350,333**	**(36,144,402)**	**425,205**	**387,631,136**

Notes to the Financial Statements

50. Changes in Accounting Policies (Continued)

(b) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

	The Group			
	IAS 39 carrying amount September 30, 2018 $'000	**Reclassifica-tions $'000**	**Remeasure-ments $'000**	**IFRS 9 carrying amount October 1, 2018 $'000**
FINANCIAL INVESTMENTS AT FVOCI:				
Debt securities				
Opening balance: Available for sale under IAS 39	246,841,009	-	-	246,841,009
Subtraction to FVPL – (IFRS 9)	-	(8,955,428)	-	(8,955,428)
Addition from amortised cost	-	34,367,072	-	34,367,072
Closing balance under IFRS 9	246,841,009	25,411,644	-	272,252,653
Equity securities				
Opening balance: Available for sale under IAS 39	3,942,414	-	-	3,942,414
Subtraction: To FVTPL (IFRS 9)	-	(3,942,414)	-	(3,942,414)
Closing balance under IFRS 9	3,942,414	(3,942,414)	-	-
Financial investments measured at FVOCI	250,783,423	21,469,230	-	272,252,653
Interest receivable	3,782,827	(36,989)	-	3,745,838
Total financial investments measured at FVOCI	**254,566,250**	**21,432,241**	**-**	**275,998,491**

50. Changes in Accounting Policies (Continued)

(b) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

	The Group			
	IAS 39 carrying amount September 30, 2018 $'000	**Reclass-Ifications $'000**	**Remeasure-Ments $'000**	**IFRS 9 carrying amount October 1, 2018 $'000**
FINANCIAL INVESTMENTS AT FVTPL:				
Debt securities				
Opening balance under IAS 39 and Closing balance under IFRS 9	2,427,888	10,553,644	123,609	13,105,141
Equity securities				
Opening balance under IAS 39	1,258,201	-	-	1,258,201
Addition: From available for sale (IAS 39)	-	3,942,414	-	3,942,414
Closing balance under IFRS 9	1,258,201	3,942,414	-	5,200,615
Financial investments at FVTPL	3,686,089	14,496,058	123,609	18,305,756
Interest receivable	8,924	216,103	-	225,027
Total financial investments at FVTPL	3,695,013	14,712,161	123,609	18,530,783
Derivative financial instruments				
Opening balance under IAS 39 and Closing balance under IFRS 9	233,239	(233,239)	-	-
Total financial investments measured at FVTPL	3,928,252	14,478,922	123,609	18,530,783

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50. Changes in Accounting Policies (Continued)

(c) Impact on financial statements

	The Bank		
	September 30, 2018 as originally presented $'000	Transition adjustment-IFRS 9 $'000	As at October 1, 2018 $'000
ASSETS			
Cash in hand and balances and bank at Central Banks	71,158,114	-	71,158,114
Due from banks	36,752,245	-	36,752,245
Investment securities at fair value through profit or loss	-	2,434,635	2,434,635
Reverse repurchase agreements	1,532,332	-	1,532,332
Loans and advances, net of provision for credit losses	271,123,032	(245,692)	270,877,340
Investment securities	55,231,338	(55,231,338)	-
Investment securities at FVOCI and amortised cost	-	52,656,207	52,656,207
Pledged assets	89,584,327	-	89,584,327
Investment in associates	1,680,328	-	1,680,328
Investment in subsidiaries	1,609,609	-	1,609,609
Intangible assets	6,629,650	-	6,629,650
Property, plant and equipment	10,042,033	-	10,042,033
Deferred income tax assets	2,806,979	-	2,806,979
Income tax recoverable	2,326,985	-	2,326,985
Customers' liability – letters of credit and undertaking	2,305,130	-	2,305,130
Other assets	8,963,114	-	8,963,114
	561,745,216	(386,188)	561,359,028

50. Changes in Accounting Policies (Continued)

(c) Impact on financial statements (continued)

	The Bank		
	September 30, 2018 as originally presented	Transition adjustment - IFRS 9	As at October 1, 2018
	$'000	$'000	$'000
STOCKHOLDERS' EQUITY AND LIABILITIES:			
LIABILITIES			
Due to banks	14,687,099	-	14,687,099
Customer deposits	332,325,170	-	332,325,170
Derivative financial instruments	25,673	-	25,673
Repurchase agreements	56,368,674	-	56,368,674
Obligations under securitisation arrangements	58,992,666	-	58,992,666
Other borrowed funds	11,562,427	-	11,562,427
Deferred income tax liabilities	123,405	-	123,405
Post-employment benefit obligations	5,188,004	-	5,188,004
Liability – letters of credit and undertaking	2,305,130	-	2,305,130
Other liabilities	12,582,843	-	12,582,843
	494,161,091	-	494,161,091
SHAREHOLDERS EQUITY			
Share capital	6,465,731	-	6,465,731
Fair value and capital reserves	(1,145,718)	833,429	(312,289)
Loan loss reserve	3,470,490	(245,692)	3,224,798
Banking reserve fund	6,512,634	-	6,512,634
Retained earnings reserve	39,250,000	-	39,250,000
Retained earnings	13,030,988	(973,925)	12,057,063
Total stockholders' equity	67,584,125	(386,188)	67,197,937
Total stockholders' equity and liabilities	561,745,216	(386,188)	561,359,028

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50. Changes in Accounting Policies (Continued)

(d) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

	The Bank			
	IAS 39 carrying amount September 30, 2018 $'000	Reclass-ifications $'000	Remeasure-ments $'000	IFRS 9 carrying amount October 1, 2018 $'000
FINANCIAL INVESTMENTS AT AMORTISED COST:				
Debt securities				
Opening balance under IAS 39	29,281,771	-	-	29,281,771
Subtraction to FVOCI- (IFRS 9)	-	(3,936,376)	-	(3,936,376)
Re-measurement: ECL allowance	-	-	(224,219)	(224,219)
Closing balance under IFRS 9	29,281,771	(3,936,376)	(224,219)	25,121,176
Interest receivable	318,652	(48,629)	-	270,023
Total financial investments at amortised cost	29,600,423	(3,985,005)	(224,219)	25,391,199
Loans and advances				
Opening balance under IAS 39	271,123,032	-	-	271,123,032
Re-measurement: ECL allowance	-	-	(245,692)	(245,692)
Closing balance under IFRS 9	271,123,032	-	(245,692)	270,877,340
Reverse repurchase agreements				
Opening balance under IAS 39	1,532,134	-	-	1,532,134
Re-measurement: ECL allowance	-	-	(581)	(581)
Closing balance under IFRS 9	1,532,134	-	(581)	1,531,553
Due from banks				
Opening balance under IAS 39	36,752,245	-	-	36,752,245
Re-measurement: ECL allowance	-	-	(304)	(304)
Closing balance under IFRS 9	36,752,245	-	(304)	36,751,941
Total financial assets measured at amortised cost	**339,007,834**	**(3,985,005)**	**(470,796)**	**334,552,033**

50. Changes in Accounting Policies (Continued)

(d) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

	The Bank			
	IAS 39 carrying amount September 30, 2018 $'000	Reclass-Ifications $'000	Remeasure-Ments $'000	IFRS 9 carrying amount October 1, 2018 $'000
FINANCIAL INVESTMENTS AT FVOCI:				
Debt securities				
Opening balance: Available for sale under IAS 39	111,479,354	-	-	111,479,354
Subtraction to FVTPL	-	(2,316,351)	-	(2,316,351)
Addition from amortised cost	-	3,936,376	-	3,936,376
Closing balance under IFRS 9	111,479,354	1,620,025	-	113,099,379
Equity securities				
Opening balance: Available for sale under IAS 39	108,422	-	-	108,422
Subtraction: To FVTPL (IFRS 9)	-	(108,422)	-	(108,422)
Closing balance under IFRS 9	108,422	(108,422)	-	-
Financial investments measured at FVOCI	111,587,776	1,511,603	-	113,099,379
Interest receivable	1,764,099	38,767	-	1,802,866
Total financial investments measured at FVOCI	113,351,875	1,550,370	-	114,902,245

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50. Changes in Accounting Policies (Continued)

(d) Reconciliation of financial investment balances from IAS 39 to IFRS 9 (continued)

	The Bank			
	IAS 39 carrying amount September 30, 2018 $'000	Reclass-ifications $'000	Remeasure -ments $'000	IFRS 9 carrying amount October 1, 2018 $'000
FINANCIAL INVESTMENTS AT FVTPL:				
Debt securities				
Opening balance under IAS 39 and Closing balance under IFRS 9	-	2,316,351	-	2,316,351
Equity securities				
Opening balance under IAS 39	-	-	-	-
Addition: From available for sale (IAS 39)	-	108,422	-	108,422
Closing balance under IFRS 9	-	2,424,773	-	2,424,773
Interest receivable		9,862	-	9,862
Total financial investments at FVPL	**-**	**2,434,635**	**-**	**2,434,635**

50. Changes in Accounting Policies (Continued)

(e) Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

The following tables reconcile the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at October 1, 2018.

	The Group			
	Impairment allowance under IAS 39 at September 30, 2018 $'000	**Reclass-ifications $'000**	**Remeasure-ments $'000**	**Impairment allowance under IFRS 9 at October 1, 2018 $'000**
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans, advances, commitments and guarantees	4,145,702	-	266,038	4,411,740
Reverse repurchase agreements	-	-	581	581
Due from banks	-	-	304	304
Total	4,145,702	-	266,923	4,412,625
AFS financial instruments (IAS 39)/ Financial assets at FVOCI (IFRS 9)				
Debt securities	283,883	(283,883)	3,096,515	3,096,515
Total	4,429,585	(283,883)	3,363,438	7,509,140

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50. Changes in Accounting Policies (Continued)

(e) Reconciliation of impairment allowance balances from IAS 39 to IFRS 9 (continued)

	The Bank			
	Impairment allowance under IAS 39 at September 30, 2018 $'000	Reclass-ifications $'000	Remeasure-ments $'000	Impairment allowance under IFRS 9 at October 1, 2018 $'000
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Loans, advances, commitments and guarantees	4,125,250	-	245,692	4,370,942
Reverse repurchase agreements	-	-	581	581
Due from banks	-	-	304	304
Total	4,125,250	-	246,577	4,371,827
AFS financial instruments (IAS 39)/ Financial assets at FVOCI (IFRS 9)				
Debt securities	-	-	989,375	989,375
Total	4,125,250	-	1,235,952	5,361,202

50. Changes in Accounting Policies (Continued)

The total impact on the group's and company's retained earnings as at October 1, 2018 is as follows:

	The Group
	2018
	$'000
Closing retained earnings September 30, 2018 - IAS 39	**64,168,949**
Reclassify investments from available-for-sale to FVPL	926,675
Increase in provision for loans and advances	(266,038)
Transfer of increased provision to loan loss reserve	266,038
Increase in provision for debt investments at amortised cost	(194,945)
Increase in provision for debt investments at FVOCI	(2,870,292)
Adjustment to retained earnings from adoption of IFRS 9 on October 1, 2018	(2,138,562)
Opening retained earnings October 1, 2018	62,030,387

	The Bank
	2018
	$'000
Closing retained earnings September 30, 2018 - IAS 39	**13,030,988**
Reclassify investments from available-for-sale to FVPL	16,335
Increase in provision for loans and advances	(245,692)
Transfer of increased provision to loan loss reserve	245,692
Increase in provision for debt investments at amortised cost	(885)
Increase in provision for debt investments at FVOCI	(989,375)
Adjustment to retained earnings from adoption of IFRS 9 on October 1, 2018	(973,925)
Opening retained earnings October 1, 2018	12,057,063

51. Subsequent events

Effective November 30, 2019, the following changes were made to the Board of National Commercial Bank (NCBJ):

- Hon. Michael Lee-Chin O.J. ceased to be Chairman of NCBJ's Board but remains a Director.
- Mr. Patrick Hylton became Chairman of NCBJ's Board.
- Mrs. Thaila Lyn resigned as a Director of NCBJ.
- Mr. Oliver Mitchell Jr resigned as a Director of NCBJ.

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